REAL ESTATE DEVELOPMENTS AND THE HOUSING SUPPLY ISSUE IN ETHIOPIA
Case Studies from Addis Ababa

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ABSTRACT

The production of built-up space in urban areas has been transforming from user-producer to a commodified form of production. Research indicates that the manner of production is an indicator of the level of urbanisation of a country or a city. Real estate development is a specialised form of built-space production for sale or rent. In this paper, the author has critically reviewed the manner of real estate form of housing development in Ethiopia and has tried to show whether or not the way it operates creates access to housing to the low-income group. The author argues that manner of land ownership and its allocation in Ethiopia play a pivotal role in making real estate-developed housing less accessible. Based on case studies from Addis Ababa, the author recommends ways of addressing the critical shortcomings of real estate developments in Ethiopia.

INTRODUCTION

Housing as an urban function constitutes about half of urban land use. The highest proportion is experienced in the least developing countries whose housing and settlement types are dispersed due to the lack of appropriate construction technologies and the proliferation of unplanned settlements. In being a dominant land use, the performance of the housing sector is a major indicator of the success or failure of urban development policies, especially that of urban land policy. The history of urbanisation confirms that governments throughout the world have had adopted a variety of policies to encourage the supply of housing with varying degrees of success. One of the central issues in policy relates to the contradictions between concepts of housing as a service and housing as an economic activity.

The methods of addressing urban social problems differ according to the period. At the outset of urbanisation the dominant form of solution to urban problems was considered to be social reform—a reform which advocated for a radical change in social and economic organisation of society. This approach was tested but has had little success. The second approach to solving urban problems was through urban planning, an approach for imposing strict control over urban activities. This approach had its modest success in some sectors, but the command and control form of urban management had its own limitations. The latest, but not the last, approach to tackling urban problems uses predominantly economic means. Urban development, including the supply of housing, is seen as an economic activity. Facilitating the housing market through special development controls, subsidies, financing mechanisms, etc., is viewed as a mechanism to promote comprehensive community development. In response to this move, real estate form of urban development has emerged as an economic activity.

The development of real estate is partly an outcome of specialisation in the division of labour. It is also a response to the organisation of the urban economy. Demand and supply projection, partly the result of urban planning activity which promotes advance planning, is central in real estate development. However, the operation of real estate in the housing sector is less than normal, especially in a context where land supply does not fully adhere to the free-market principle. The Ethiopian urban development context, especially that of the housing sector, is one such example.

Most of the urban centres in Ethiopia were established after the second half of the twentieth century. The leading paradigm in world urban development sets the pace of most urban development approaches of developing countries follow this dominant paradigm. Thus in Ethiopia, real estate form of urban development commenced in the mid-1990s. At the start, working, living, and recreation space producers were users themselves. When real estate development became an economic sector on its own, curiously, it started its operation in the housing sector. The reasons for such a move are neither clear nor are the operations of the real
estate developers documented. The main research issue then is, what are the peculiarities of real estate form of housing supply and if real estate form of housing delivery has a prospect in the Ethiopian urban context.

Investigation of real estate form of housing delivery in Addis Ababa indicated the presence of various issues that need attention. There is no regulatory framework to control operations, the level of subsidy necessary for the sector is unregulated, property rights of real estate investors and end-users are unclear. Moreover, real estate developments enter for the high income group. its prospects for the middle and low income group which make up the majority of inhabitants of urban areas are under-documented. The consequences of such situations on the prospect of real estate development as a form of housing supply are unclear.

Objective, Scope & Methodology of the Research

Objective of the study

This research will try to investigate the theoretical and empirical bases for real estate form of urban development, especially in the housing sector. It will also deal with the planning approaches, land issues, and financing mechanisms of real estates. The main objective of the research is to investigate the characteristics and contribution of real estate form of housing supply to the alleviation of urban housing problems. The paper will focus on the link between land delivery and housing development, policy constraints for real estate development in the housing sector, and the accessibility of real estate developed housing to different income groups.

Scope of the study

The scope of the study is limited to the investigation of modes of housing supply, since the adoption of the leasehold policy of land in Ethiopia. Review of the leasehold policy will be the basis for understanding real estate operations. The empirical study will be limited to the investigation of the level of accessibility of land and housing to different income groups, the land acquisition and mode of development of residences, the methods of financing by investors and clients, and the tripartite, link between the Government, developers, and clients.

Research outcome and beneficiaries

This research is expected to highlight problems in urban land management and housing development. Based on the analysis of empirical situations, issues relevant for policy options will be produced. Urban land and housing issues being the concern of all urban managers and residents alike, a research outcome which indicates critical conditions and proposes means of solving the problems is highly beneficial to all. The findings of this research will be useful as an input to the efforts of the Federal Government in its urban development policy preparation, specifically for the housing sector and in the formulation of regulations for real estate developments.

Method of research

The focus of this study was Addis Ababa, mainly because other urban centres do not have real estate developed houses. It cannot be claimed that empirical investigations in one situation will hold true for all other cases, but as a Capital City, Addis Ababa is the forerunner in the formulation of urban development policies in the country. Therefore, studies that focus on policy level could be relevant for other urban centres. This research is focused on policy issues enacted by the Federal Government, such as household policy, taxation policy, and transfer of title.

The case study method was used in research design, data collection and data analysis. The case study method is appropriate for issues that involve complex relationships. More specifically the case study method is appropriate for research issues which stress on "how" and "why" questions, where behavioural real events are not possible to control, and in situations where the research deals with contemporary and complex social phenomena whose boundary is not clear with the context under investigation [1].

The main sources of data were the Lease Office, real estate developers and their clients. The selection of real estate developments for the case study was based on the level of operation (must have an advanced stage of construction and clients should be known), the size of the estate (the bigger the better), and variations in modes of financing the developments. There are only few agencies operating as real estate developers in the housing sector. Data for the research was gathered using semi-structured interviews and were administered by the researcher. The category of interviewee were real estate developers, their technical departments, and clients. Field observation was also used as a method of data collection. General conditions for real estate developers were evaluated based on
primary and secondary data gathered from the land administration office. For this study two real estate developments were selected and investigated, Ayat Real Estate Development and Habitat New Flower Homes-Kalti site. The main methods of analysis used in the research were pattern-matching, triangulation of information, and comparison of physical standards. The empirical data for this research was gathered through field works that lasted from June to September 2000 and an update in April 2003.

Organisation of the paper

The first part of the paper has already introduced the objective, scope, relevance and method of the research. The remaining parts are organised into five parts. Part I will deal with theoretical issues about urban housing in general and specifically about real estate developments. It will indicate the gap between current knowledge on the housing issue and contemporary urban phenomena in the Ethiopian context. Part II will present developments in the supply of housing through real estate developers in Ethiopia by subdividing periods of urban developments according to land policy types. Part III deals with case studies of real estate housing developments in Addis Ababa while Part IV deals with main findings and discussion of results. Finally, Part V presents a tentative conclusion and a summary of the main points that are relevant for policy considerations.

PART I - URBAN HOUSING AND REAL ESTATE DEVELOPMENTS

The housing question is central in urban planning as it is the concern of all urban residents and it also accounts for a major part of urban land uses. Due to its importance, the success rate of urban housing has been suggested to be the test for the success of land use planning and urban land policies. To mention two of the central issues in planning. Before embarking upon the discussion of a specific form of housing supply—the real estate form of supply, an overview of developments in the urban housing and land policy issues seems to be appropriate.

Developments of Urban Land and Housing Issues

The link between land and housing

The proportion of land used for housing may vary depending on the level of technology, the culture, and the availability of resources in a society. In general terms housing as a land use covers about 40% of urban areas in developed countries and more than 60% in most developing countries. On the other hand land accounts for 30-50% of the construction cost of dwellings in highly developed countries[2, p 28 & 48]. The share of land cost in housing in urban areas of most developing countries is much higher than that of developed countries, because most houses are mere shelters built through self-help, thus involve less monetary capital. The land for housing issue is thus central in housing development, but the link between the two is a matter for empirical study. Potter and Lloyd-Travels[3, p 137-81] aptly described the link in the following manner:

"the housing problem is as much about land ownership and access to land as it is about housing itself, and whatever circumstances, the role of the State is fundamental [1] as third point, it is necessary to recognize that the precise configuration of housing type, land market and tenure system is highly varied and highly country specific."

The views about land for housing and urban growth are intertwined. The approaches of governments in developing countries to the issues of urban growth, rural to urban migration and housing development had passed through cycles of hostility, acceptance and support [4], but the manner of handling cases differed from nation to nation and even from city to city within a nation. However, in all cases the centrality of land-related issues in housing development have been progressively recognized by most authors [5, 6, 7]. The developments of urban land and housing issues over the years could be summarised as follows:

1. Period of Indifference: rapid population growth through rural-urban migration, informal means of accommodating the surplus population, tolerance of the new urban dwellers to sub-standard housing conditions, land allocation by tribal chiefs, squattings and squatter settlements, spontaneous settlements, densification of existing housing areas; duality in urban structures [Table 1]. urban economy, housing and urban development emerged.

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emphasis on deregulation and enabling approaches towards land markets, security (financial institutions, and the private actors) and development projects that were designed to recover money. However, the gap between the big actors and the poor, and the few, and the many land agents (developers) who were not catered for did create small but many land agents (developers) and self-help approaches to avoid involvement by governments [11].

3. Self-help approach and territorial issues period. Recognition of the centrality of land issues in housing, granting of secure tenure thought to mobilise own resources, provision of sites and services, formalising existing informal settlements, provision of financial loan, successive invasion of low income settlements by the middle income group (down trading process), do-it-yourself approach as a means to avoiding involvement by governments [11].

4. Commercialisation of land and housing: legalisation, provision of services and security of tenure to informal settlements, and self-help approaches initiated land markets, governments promoted integrated development projects that were affordable, designed to recover costs, consolidation of land deals in the hands of big operators (financial institutions, major landowners, international corporate bodies, real estate developers) thereby limiting access to the poor. However, the gap between the big actors and the majority who were not catered for did create small but many land agents [12]. Neo-liberal approaches necessitated governments to privatise publicly held assets including land, emphasis on deregulation and promotion of an enabling environment [13].

5. Enabling approach: It is similar in very many ways but not synonymous to the commodification of goods and services advocated by the neo-liberal ideology, in recognition to the failure of government planning empowerment of communities advocated; programmes were required to be settlement-wide; Government's responsibilities were required to be limited to facilitating operations and intervening in areas where the private sector is unable to provide profitably [14, p.337-39] Community-based self-help groups were recommended to be the planning and implementing agencies, thereby calling for a "new division of responsibilities between governmental agencies and community-based self-help groups" [10, p.197].

Table 1: Basis for the definition of duality in housing developments

<table>
<thead>
<tr>
<th>Dualities</th>
<th>Basis for definition</th>
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<tbody>
<tr>
<td>Formal/formal,</td>
<td>Economic operations</td>
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<tr>
<td>Legal/illegal,</td>
<td>Official law,</td>
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<tr>
<td>Authorised/unauthorised,</td>
<td>Planning and building permit</td>
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<tr>
<td>Privileged/unprivileged,</td>
<td>Policies</td>
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<tr>
<td>Permanent/temporary,</td>
<td>Physical structure,</td>
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<tr>
<td>Planned/unplanned,</td>
<td>Official planning,</td>
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<tr>
<td>Regular/irregular,</td>
<td>Planning approach,</td>
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<tr>
<td>Planned/spontaneous,</td>
<td>Development phase and planning,</td>
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<tr>
<td>Official/popular,</td>
<td>Participation in the housing production</td>
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</table>

Sources [8]

2. Housing rights period: limitations of the all-encompassing formal/informal typology recognised [9, 10]. Differences in social contracts of settlers given attention, offences of contravention to laws that applied to as low as 30%, or at best to 70%, of urban residents was questioned [10]. Government approaches included a combination of demolition of slums, provision of minimum standard subsidised housing to the few, and pursuing agrarian programmes to keep people in rural areas [5].

Land Tenure Systems and Ambiguities about Land as Property

Land is a basic resource to construct shelter and as a base for living. Viewed in this way it is the right of every citizen to have a base on the nature-given terra firma. Various cultures hold the view that land is natural so it should be accessible to all. The basic concept of land that it was natural and man held it as a trustee to "God" was challenged by John Locke in the 17th century. He claimed that man is entitled to annex something as a property which his labour has created. Thus if land is improved, it maybe rightfully claimed to be private. More importantly, Locke believed that claiming land privately "does not lessen but increase the common stock of mankind" [15]. But this has been challenged since the advent of rapid urbanisation as a result of the limitations that private land ownership had posed on the public interest. Investment in the improvement of land and the social networks created to regulate rights "may" transform land to a "property". According to Payne [7, p.3]
"Land tenure can be defined as the mode by which land is held or owned, or the set of relationships among people concerning the use of land and its product. Property rights can similarly be defined as a recognized interest in land or property vested in an individual or group and can apply separately to land or development on it. Rights may cover, inter alia, access, use, development, or transfer and, as such, exist in parallel with ownership."

The literature on urban land and its role in the development of housing is extensive. The relevant issues for the present case are how land is held (owned), rights to use and to transfer land, i.e., about land tenure and property rights. Various tenure systems co-exist in each country, though few are recognized as the formal law. Even within the "formal law" there cannot be just one "land policy", but different sets of policies on land issues. According to Dhar-Dranikin [2, p. 186] land policy measures that influence private decisions on land use could be categorized into three groups, namely 1) legal measures, 2) taxation methods; and 3) direct action by public authorities.

The legal measures include the power to plan (to fix land use type), manner of subdivision, phases of development, and the power to expropriate. The taxation methods involve fixing types and rates of tax on land and property, while the direct public action deals with methods of public acquisition of land, the development of infrastructure, and the allocation of developable land to individuals. In all the three measures outlined above the manner of holding and the rights of the holder play a key role. These land policy measures will not be effective in situations where the legal system does not encompass the major part of the urban system, a typical case in developing countries as most urban areas informal. Thus types of tenure and the roles they play in providing access to land for housing in developing countries is one of the central issues in land and housing studies.

Urbanisation poses several problems, not least, social interactions change to anonymity, access to land, nature and housing are also curtailed. Different generations used varying methods to solve their urban problems. Social transformation through changes in ownership and handling problems through urban planning were practiced subsequently. In the late Twentieth Century market-based approaches became the principal means to handle the problems of accessibility of goods and services [16]. The commercialization of land and urban development through real estate development are manifestations of features of the market-based approaches to urban development. However, to be effective, real estate development requires preconditions. Generally, dominant development paradigms influence policies of most countries, but it is only in few situations that conditions become appropriate for a general development approach to be sustainable. The operation of real estate development in the housing sector in most developing countries lacks the necessary policy frameworks to function properly. The characteristics of real estate developments and the necessary policy frameworks are briefly reviewed in the next section.

Characteristics of Real Estate Developments

Land issues in real estate development

Real estate is land in its developed form. Raw land that is not put to use of any kind has no value but it is a resource with latent use value. Land in its developed form is a commodity that has distinct characteristics from land as a resource. As a resource, land provides basic goods and services, such as minerals and vegetation. It is also a capital good which can supply other goods and services over a period of time (such as housing, roads, recreation). Land has to be transformed so that it is in a productive form, hence usable land is limited in supply. Another very important characteristic of real estate is the nature of externalities in land development. In land development all costs and benefits cannot be internalised, there are costs which have to be borne by neighbours or society at large and benefits that accrue to free riders. It is the externalities issue that provides legitimacy to governments to control land uses and levy different taxes from property. Society's welfare is at its greatest when available resources are allocated efficiently, this will be possible only when users of resources bear all costs related to the production of the goods and services. Externalities and the externality are one of the central issues in urban development.

Real estate commodities are created through a process of land conversion from one use to the other. The conversion could be from agriculture to urban use or from one category of urban use to another. Conversion, thus involves development or redevelopment of land or land use. It is the rent gap between the potential of a land at a location and the existing use that prompts conversion of land use. Land rent is a theoretical field that has attracted...
famous analysts throughout history (Adam Smith, David Ricardo, Marx, etc). Changes in land use affect other use classes and owners of properties in various ways. Hence, in situations where urban areas do not have binding land use plans or where development controls are not effectively implemented, real estate developments operate in a highly flux environment.

A very important feature of land markets and real estate properties is the way competition is understood by society and policy makers. All business activity is speculation; buy goods hoping to sell at higher price, the more the operators (speculators) the smoother the market. However, in the land market speculation is viewed negatively. This view emanates from the position that categories land as a natural resource. Governments that have stifled the supply of land, utilise speculation as an alibi for the inefficiency of their policies. Speculation flourishes where ambiguity reigns. Therefore, for a smooth market, and by implication, a better urban development, it seems, there is a need for more speculators to even out the lack of transparency and consistency of urban development policies and practices. However, the manner of land ownership, urban planning and development control practices in a country should be investigated to understand the extent of effects of land issues on real estate form of urban development.

<table>
<thead>
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<th>Table 2. Basic forms of property rights</th>
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<td><strong>Forms</strong></td>
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<td>Fee simple</td>
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<tr>
<td>Life estate</td>
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<tr>
<td>Leasehold</td>
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<tr>
<td>Easements</td>
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<tr>
<td>Lien</td>
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<tr>
<td>Tenants in common</td>
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<td>Tenants in common</td>
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<td>Joint Tenants</td>
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<td>Condominium ownership</td>
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</table>

Source: Adapted from Plattner (17).

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Financing real estate developments

Real estate development is an expensive activity, in most cases it requires borrowing funds. In some countries there is tax advantage for borrowers to finance home ownership; especially for first time homeowners. In such cases tax rebates are important aspects of real estate development. Similar to any loan, mortgage debts for real estate developments could be paid in any of the following mechanisms:

1. level-payment mortgage (repayment is equally distributed over whole period);
2. graduated payment mortgage (repayment is low at the start and increases and increases over the life of the contract), or
3. variable payment mortgage (repayment varies according to interest rate).

In most standard mortgage loan contracts, the rate of interest on the balance over the life of the contract is generally fixed. This condition has serious implications for financial institutions when the loan period is considerably long as in real estate finance. Consider the case where interest rates have fallen. The borrower will likely borrow more and repay his former debt, even if repayment penalty exists. On the other hand, if interest rates increase, the lender cannot increase the rate; hence the borrower has still an advantage. Faced with such dilemma some governments have authorised adjustable rate mortgages (ARM) over the unpaid portion of the debt. In other cases lenders enter into contract to share the appreciation from real estate property (shared appreciation mortgage).

Real estate developers could start their operation by acquiring raw land or may buy an already serviced land from landlords. Depending on the situation, the cost of development may include land cost, land development cost (surveying, preparation of subdivision plan, approval, servicing), actual building construction cost, disposal costs (broker fee), and cost of borrowed money. It follows from this that the existence of an efficient loan finance system is critical for real estate developments.

Taxes on property

The types and rates of taxes levied on property affect real estate operations. Income from real property maybe be earned in the form of rent, sale, or using it. Income may be categorised as ordinary income and gains income. In most countries, for tax purposes, earned compensation, investment income, and income earned from most business activities are classified as ordinary income. Normally a progressive tax structure is applied to ordinary income, however, deductions from income and tax rates differ from country to country. Some countries make differences on the tax rate and allowable deductions on the basis of marital status of household heads, and the number of non-earning household members. First time homebuyers maybe relieved from paying tax for an amount of income used to pay interest on mortgage. For tax purposes there could be only one property to be used as primary residence.

When an asset is sold for an amount that exceeds the adjusted basis plus selling costs, a taxable gain exists. The adjusted basis of property is its cost plus any addition, less depreciation or deduction in value from other losses. Different conditions are applied for tax purposes on capital gains and losses. Certain portion of a capital gain is exempt from tax if a property is held for more than a specified period. For example, in the USA, a property held for more than one year, 60% of the capital gains is exempted from tax while the remaining 40% is taxed at a rate applied to ordinary income.

For tax purposes, real estates are categorised into four: personal-use property, investment property, dealer's inventory, and property used in trade or business. The first two categories are capital assets that may produce capital gains or losses when sold. The last two categories represent business property where gains and losses during the sale are treated as ordinary income or loss. Personal-use property encompasses all residential housing that do not produce income; private homes, condominiums, and cooperative houses. Such properties pay local property taxes and maybe interest arising from debt for the construction of the property. However, if a personal-use property is rented, tax may be levied on the rental income. An investment property represents net leases of undeveloped land for long time or developed property (renting a building) where the owner derives a guaranteed income with no responsibility for running costs.

Dealer's inventory includes property bought and held temporarily for sale. Gains from brokerage operations, the marketing of improved land and property, the development of houses for sale are treated as ordinary income by most countries. Tax on such incomes is similar to ordinary income. Property used in trade and business is considered...
an income producing property. In the calculation of taxable income, depreciation of property, interest on mortgage, and operating expenses are taken into account. In the case of depreciation, countries decide the life expectancy of buildings and assign rates for the designated period. However, it is usual to have high rates for the early years and lower rates for the later years.

It could be observed that types and rates of taxes on real properties affect the operation of developers. If the different types of property uses are not well regulated through tax there is a possibility that business operation in a country could have differential advantages that are not desired. A fair and just system should provide an even ground for all business activities without prejudice to policies for channeling subsidies to the needy. The property tax system in Ethiopia is flawed in many ways, as will be shown in Part 2.

Problems and Questions at Issue

From the foregoing review of theoretical and empirical situations of real estate developments several critical issues remain unanswered. Real estate property is as much about land as it is about general urban economies. The demand and supply relationship in land for development and the value of property rights in an individual parcel of land are complex. The situation becomes even more indeterminate when land is under public ownership. The issue for research then becomes how allocation of land for different use classes, and particularly for housing, affects the performance of real estate developers. The clusters of issues along this line of inquiry include:

1. What were the policies for land allocation in various use classes (especially housing), and how did they affect the accessibility of land for different income groups?

2. What were the different mechanisms by which land and housing were developed?

3. How and what did development planning and control policies contribute to the operation of real estate developments? Specifically, on what basis were decisions passed regarding location, size, subdivision standards, and timing of developments and what were the effects of such policies on the performance of real estate developers?

4. What are the mechanisms used by real estate developers to finance developments? Which socio-economic groups get access to real estate developments?

Other clusters of issues relate to the price of real estates, methods of financing developments and the transfer of property rights. In other forms of housing, the land price component is high as the house itself could be built progressively through the use of personal labor and without cost of money (use of non-borrowed funds). Real estate development is a business activity; hence land is acquired against the payment of lease fee. Moreover, residences maybe developed for sale or rent. The issues related to rental arrangements could be the affordability of real estate developed houses whereas those that are developed for sale pose additional legal and financial issues related with transfer of titles. The issues for research are then:

1. To what extent does land cost affect the price of real estate developed houses?

2. How are real estate developments financed and marketed in Ethiopia?

3. What are the problems faced during the transfer of titles?

4. Is real estate development in the housing sector a viable economic activity with the current urban economic policies (land policy, taxation policy, title transfer policy, etc.)?

5. What is the prospect of accessing real estate form of housing supply to low income households?

The following sections will elaborate on the different issues based on critical assessment of Federal and regional policy documents and empirical data.

PART II - REAL ESTATE FORMS OF HOUSING SUPPLY IN ETHIOPIA

Real estate development is linked with specialisation; that a person or a firm develops land and property for sale or rent. As shown earlier, real estate development is intrinsically linked with land, hence the mode of land ownership affects its operation. The issue of specialisation places real estate development as an urban activity. Therefore,
the history of real estate development in Ethiopia is
related with urbanisation and urban land
ownership. In Ethiopia, urbanisation is basically at
subsistence level, i.e. similar to rural areas,
everyone produces spaces for his own need, that no
(or little) finance is involved, and property rights
are simple social contracts that guarantee use rights
without a representation. Simple social contracts
could oblige a property holder to respect the rights
of others in return for a similar right over one's
property. However, in modern society property
rights have standard representations that enable
owners to trade in whole or parts of the rights [18].

In fact, the unplanned growth of most urban areas
is a reflection of the state of real estate
developments in Ethiopia. Real estate
developments, especially those that are developed
for sale, require formal operations. The prevalence
of informal developments shows the low level of
development of real estate form urban growth. On
the basis of the mode of land ownership, real estate
developments in Ethiopia could be categorised into
three periods:

a) Private landownership (pre-1975 period);
b) Public ownership with usufruct right only
(1975-93), and
c) Public ownership with leasehold rights (post-
1993)

Private Land Ownership Period (pre-1975
period)

During the private landownership period, most
landlords sold parcels of land for individuals who
wanted to build houses. The producers of built up
space were mostly the occupiers, this is still the
case in most urban centres in the country,
especially for housing. Where space for rent was
produced, the developers were mostly the landlords
themselves. Except for the few modern buildings in
central areas of cities, landlord-developed estates
had neither planning permission nor building
permits. In most cases the development of
traditional chacka houses was done without bank
loan. The positive aspects of this mode of
development were the ability of the system to
utilise traditional means of mobilising project
finance and the high accessibility of rental houses
to residents. However, this manner of development
has had drawbacks:

- the developments lacked planning and
building permission, hence posed difficulties
for urban management,
- houses were below standard in terms of size
space organisation, construction, and
infrastructure, hence, pose health and safety
hazards,
- promotes rental housing, subsequently causing
urban maintenance problems after they were
nationalised,
- maintained monopoly on land and real estate
in the hands of very few landlords, hence
slowed the transition of the economic order to
a modern system.

In other cases few individuals rented or bought
land and developed their own residences. The main
developers of housing during this period were
landlords and individuals for their own use

Public Land Ownership with Usufruct Rights
Only (1975-93)

During this period land was centrally allocated to
individuals and institutions (private and
government) for own use only (Proc.No.47/1975).
The main developers of estates for uses other than
housing were the Government, parastatal
institutions and public associations. In the housing
sector, the developers of new estates could be
categorised into eight as shown in Table 3.

The first three producers of housing listed above
accounted for nearly 99% of new housing
developments in Addis Ababa. According to
MWUD [19] the share of new housing production in
Addis Ababa was 47.7% cooperatives, 31.2%
individuals, and 21% Agency for Rental Housing
Administration. The share of individuals and
housing cooperatives was high in other urban
centres.

Public ownership of land did enable urban centres
to plan their developments but the limitations to
the allocation of land have curbed growth.
Transformation of uses maybe a natural outgrowth
of urban change but the limitation on land supply
and the ban on real estate development as an
economic activity are observed to have accelerated
the conversion of houses to other use classes and
the supply of private rental house in contravention
to the law. According to one study, these

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transformation were mainly informal, but they constituted real estate developers for the period. According to the Addis Ababa City Government [21] by 1997 a total of about 712,600 residences were converted to business functions in Addis Ababa. Except differences in magnitude, conversion of residences to other use classes was common in most urban centres in the country as similar policies of land allocation were applied.

Public Ownership of Land with Leasehold Rights (post-1993) Period

There are ambiguities in the way ownership of land is stated in the different proclamations since the nationalisation of land in 1975. Land was declared to be a "collective property" in Proc No 31/1975, "state property" in Proc No 1/1987, and "common property and the property of State and the people" in Proc No 1/1995. Leaving aside the ramifications on property rights, the different laws limited the rights of individuals on land to usufruct only [22]. However, this was not made explicit prior to the 1993 proclamation (Proc No 80/1993) that introduced a leasehold policy for urban land.

Unlike the previous socialist government, the national investment policy of the Federal Government of Ethiopia encouraged the private sector to have an active role in the national economy (Proc. No. 37/1996). Consequently there is more demand for operating space. In fact when the socialist government introduced the mixed economic principle in the late 1980s there was already a surge of request for land. The urban policies passed to implement the liberalisation policy in the last days of the Derg Government and the policies since the takeover in 1991 have not succeeded in delivering serviced land as required. One of the effects of this disparity between the liberalisation of the economy and the land delivery policies is the conversion of existing properties informally to business places and the informal development of land at the urban fringe at a higher rate. Main Federal policies and policies of the City of Addis Ababa which have had effects on urban development are analysed next.

General Development Policies

The Government of Ethiopia adopted a structural adjustment programme in 1991. Accordingly policies that were significantly different from the previous government regarding overall development strategy, and particularly urban development, were enacted. These include administrative restructuring favouring decentralisation, trade liberalisation, monetary and financial regulations based on market-led economic principles, and encouragement to the private sector. The effects of these policies on urban development in general and on housing in particular are far reaching.

In keeping with the decentralisation policy, Addis Ababa was given regional status and became Region 14 Administration. Its original name was reinstated in 1997 when the Federal Government granted it a Charter (Proc No. 87/1997). The 1997 Charter was revised and the administrative link with the Federal Government was reinstated in 2002 (Proc. No 31/2002). The 1997 Charter of Addis Ababa replaced its previous position as a regional government, but the City retained administrative autonomy over most of its affairs including planning and execution of development projects. The immediate legal effect of the decentralisation policy and the creation of autonomous regional states was the making of Addis Ababa a besieged island with limited possibility of physical expansion. This situation has not curbed the expansion of the City until now. However, a new phenomenon of urban expansion is observed at the urban fringe of the City.

The development of edge cities that are highly linked to Addis Ababa but do not fall under its jurisdiction are becoming a reality. For example, Ropack Real Estate is developing a small township (about 1,500 houses that could accommodate about 7,500 population) in Lago Taffo area North-east of

Table 3: Typology of housing developers during 1975-93 period

<table>
<thead>
<tr>
<th>1. Housing associations</th>
<th>6. International NGOs (upgrading and minor redevelopment works)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Individuals</td>
<td>7. Informal settlers (developers of chera keba) at urban fringes</td>
</tr>
<tr>
<td>3. Central Government (Agency for Rental Housing Administration, ARHA)</td>
<td>8. Squatter settlers (urban fringe) and pavement dwellers (city centres)</td>
</tr>
<tr>
<td>4. Municipalities and kebeles (low cost houses)</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>5. Parastatal institutions (temp accommodation)</td>
<td>---------------------------------------------------------------</td>
</tr>
</tbody>
</table>

Source: Fieldwork 2000 and [8]
Addis Ababa. In the Western part of the City, Wolete Sow is developing at an alarming rate as a result of land allocation by the Oromiya Regional State. The same holds true for areas along all major outlets of the City. In fact the Oromiya Regional State considers all land within 10 km radius around Addis Ababa as urban land. Land requests in this area are treated similar to requests in urban centres in the Region (Consolidated Oromiya Regulation No.1/1995: Art.29). This situation amplifies the besieged nature of Addis Ababa.

The long-term development strategy of the Government of Ethiopia focuses on agricultural development-led industrialisation [23]. The development of rural areas was expected to result in a reduced rural-urban migration; a classical anti-urban policy. Failure to recognize urban development as a principal vehicle to general national development negates well-established facts about the role of cities in the social and economic development of nations [14]. This situation is changing now, policies that enhance urban development are under preparation since 2001. These include urban development policy, urban planning law, national building law, housing policy, and various initiatives that enhance good governance and economic development.

Leasehold policy of urban land

Public ownership of land and free allocation of development land benefits those who already possess land and those who control land allocation. The main objective of the urban land leasehold policy (Proc. No.80/1993) was to provide monetary value for the utilisation of urban land. In this respect the leasehold policy of land is one step ahead of the previous policies on land. Detail objectives of the leasehold policy include:

1. to increase income for urban areas so that they could provide better services, especially housing,
2. to increase transparency in the permit system of land holding and utilisation and to do away with discriminatory treatment of applicants and to fight corruption, and
3. to regulate the appropriation of unjustified gains realised during the transfer of rights to utilise urban land.

The main features of the leasehold policy (Proc No.80/93) that had direct bearing to housing include its scope of application, property rights related to transfer, mortgaging, compensation, and associated taxes or duties, ways of acquiring new development land, manner of fixing rate and modalities of lease fee payment, and duration of lease period. Proc.No.80/1993 was amended in 2002 as it proved ineffective. The comparison shows that most of the problems which the previous leasehold policy faced were addressed by the amended policy. The main policy provisions (as they relate to housing) that were amended are shown in Table 4.

Monetary and taxation policies

In the monetary and financial sector the discrimination in interest rates with respect to type of development, ownership and sector was abolished as of 1992. The Birr was also devalued; accordingly, interest rates and the value of Birr were to be adjusted according to the market. The obvious effect of this act was the abolishing of the prevailing preferential interest rate on loans for housing developments. The rate of interest increased from 4.5% per annum (for cooperatives) and 7% per annum (for individual developers) to over 10% per annum irrespective of the kind of development work. The currency devaluation has further affected housing development as imported construction materials became more expensive.

The general financial regulations that have had significant impact on the types of urban developments in the 1990s were Income Tax Proclamation (Proc. No.62/1993), Urban Land Rent Act (Proc. No.161/1979 at national level and Regulation No.4/1994 for Addis), and the Capital Gains Tax (Proc. No.108/1994). The provisions of these taxes as they relate to housing are investigated below.

Income tax from building rent

In the 1990s the rate of tax to be derived from the rent of buildings irrespective of function was based on a minimum annual income of Birr 1200 which was exempted from tax. Income above this minimum was taxed progressively starting from 10% up to 45%. The regulation allowed deductions for allowable expenses, but still it was claimed by some analysts to be high to the extent that it discouraged investment on the construction of rental buildings, particularly dwellings [24]. Proclamation No.286/2002 has repealed all previous Income Tax Proclamations. The current rate for income tax from building rent is similar to income taxes from any form of income; however, Journal of EEA, Vol. 21, 2004
Table 4: Comparison of developments in the Federal Urban Land Leasehold Policies

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Proc No 80/1993</th>
<th>Proc No 272/2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease rate and provisions for housing</td>
<td>-Minimum rate of rent to be set</td>
<td>-Rate of lease to be determined by City administrations or Regional Governments</td>
</tr>
<tr>
<td></td>
<td>-Actual rate to be determined by public tender only</td>
<td>-No minimum lease rate</td>
</tr>
<tr>
<td></td>
<td>-For low cost housing lowest rate</td>
<td>Regional or City Government can permit land up to nil lease payment</td>
</tr>
<tr>
<td></td>
<td>-For higher cost similar to other uses</td>
<td></td>
</tr>
<tr>
<td>Land allocation</td>
<td>-Public tendering only</td>
<td>-Public tendering (minimum rate to be set)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Negotiation (minimum rate to be set)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-For housing- to be regulated by City or Regional Governments</td>
</tr>
<tr>
<td>Launching of construction</td>
<td>-Period to be regulated by City or Regional Governments</td>
<td>-Period to be regulated by City or Regional Governments (the same)</td>
</tr>
<tr>
<td>Grace period for completion of development</td>
<td>Not specified</td>
<td>-Period to be regulated by City or Regional Governments</td>
</tr>
<tr>
<td>Size of land holding</td>
<td>Not regulated</td>
<td>Not regulated</td>
</tr>
<tr>
<td>Scope of application of the policy</td>
<td>-All new developments</td>
<td>-All urban land under the rent system and household system</td>
</tr>
<tr>
<td></td>
<td>-Existing possession upon transfer of title in ways other than inheritance</td>
<td>-For lands not in the leasehold system period of transfer to leasehold to be decided by City or Regional Governments</td>
</tr>
<tr>
<td>Title transfers and income from land held through lease</td>
<td>-Lessee can transfer right;</td>
<td>-Lessee can transfer right for the period the lease is valid</td>
</tr>
<tr>
<td></td>
<td>-Can mortgage the holding, or collect income for up to the lease rent only</td>
<td>-Can mortgage the holding</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Income from transfer of right has no limitations</td>
</tr>
<tr>
<td>Lease period</td>
<td>-Based on level of urban centre and type of use class</td>
<td>-Category of towns limited to Addis Ababa level and others only</td>
</tr>
<tr>
<td></td>
<td>-Period fixed for each level of urban centre from 50-99 years</td>
<td>-Use classes for A.A. level from 50-99 years, others from 70-99 years</td>
</tr>
<tr>
<td></td>
<td>-Housing-personal=99, leasable=60 yrs</td>
<td>-housing, personal and leasable=99 years</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


the minimum taxable annual income was raised to Birr 1,800 and the maximum rate was fixed at 35%. Allowable expenses are deducted in the computation of taxable income from building rent. However, the regulation does not allow for variations on the basis of function of the building nor the overall income of households.

Urban land rent

Most urban areas in Ethiopia are administered through the urban land rent system, not through leasehold system. Proclamation No.80/1979 and its amendment Proc. No.161/1979 provided the basis for fixing urban land rent and house tax. Accordingly, urban centres were classified into four categories with three grades each and land rents decreased progressively from higher to lower grades. Currently the urban grading regulation is under review.

For example, in Oromiya Regional State the leasehold policy applies to only eleven urban centres. Even within these urban centres the proportion of property under the leasehold system of land is very low. Unlike urban house tax, which is calculated according to its annual rental value, land rent is administratively fixed. According to a senior planning officer in the Oromiya Regional Office for Urban Development Affairs, land rent was fixed by considering market value. The market value of land is considerably higher than the previous land rent, hence the minimum rate was fixed at about four times the minimum rate fixed in Proc. No.161/1979. Furthermore, except for terminology (lease or rent), the revenue from land in most urban centres of Oromiya that have similar category and grade has been evened out.

In the case of Addis Ababa, the rate of urban land rent is based on the Charters of the City
Real Estate Developments and the Housing Supply Issue in Ethiopia

(Proc. No. 87/1997 and Proc. No. 311/2002), its development plan, the leasehold policy (Reg. No. 3/1993 and Reg. No. 29/2002), and regulations for the fixing of land rent (Regulation No.4/1994). According to these regulations land within the boundary of the City is categorised into different zones: each zone is sub-divided into three grades each. The rate of rent is based on the type of function (commerce, industry, or housing), and the zone and grade of land. In the case of housing, the size of land holding is also considered to fix the rate of rent.

The acts at Federal and regional levels provide incentives for housing irrespective of household income. The problem with universal provision of subsidy is that it diminishes the capacity to assist households who really need help.

**Capital gains tax**

In the 1990s, the Capital Gains Tax regulation (Proc. No. 108/1994) required the payment of tax on capital gains from the sale of shares, bonds, and buildings. The buyer was supposed to pay 9% as duties for transfer of property and the seller 30% as Capital Gains Tax of the total sale value of properties. This regulation provided possibility to legally transfer property, but the high rate of tax was a deterrent for private investors, especially in the housing sector [24]. This policy was repealed in 2002 through Proc. No. 286/2002. The revised proclamation simplified taxable incomes. One of the improvements was the tax exemption from gains obtained from the transfer of buildings held for residence. All incomes, regardless of means of securing the income, were treated in the same manner.

**Land Allocation and Housing Development Modalities**

The main actors in the housing development sector in the 1990s were individuals and cooperatives for own occupation, and real estate developers. The government tried to avoid a cooperative system of housing development in the initial years of its period, but this was reversed soon because there were several housing cooperatives waiting for land allocation. However, cooperatives were required to get recognised in line with new requirements, such as deposits in blocked accounts. As a result, most cooperatives had to change more than 90% of their members. The main policy for land allocation being the leasehold policy, the policy of Addis Ababa and that of the largest regional state, Oromiya National Regional State, are critically reviewed below.

**Leasehold policy of Addis Ababa and Oromiya**

Pursuant to the national law on lease holding of urban land, the Addis Ababa Administration and the Oromiya National Regional State enacted their own laws on lease holding of urban land (Regulation No. 3/1994 for A.A. and Reg. No. 1/1995 for Oromiya). These regulations were amended in 2002 (Reg. No. 29/2002 for A.A. and Reg. No. 1/1995 for Oromiya, Amended). The provisions which have direct bearing on real estate housing developments are rate of lease, lease period, launching and completion time of development, size of holding, and transfer of rights. Investigations showed that the lease rate for real estate housing development does not differ from other forms of investment. However, there are hidden subsidies in the form of waived payments for parts of estate holdings. The requirements for launching time and project completion period are also ambiguous for real estate developments of large sizes. The provisions of these regulations are compared in Table 5.

In the case of Addis Ababa, there was no clear directive for the implementation of the 1994 leasehold policy. However, as part of the reform process, a directive was prepared in 2002 to guide the implementation of land development. Directive No. 2/2002 provided detailed implementation norms; it has clarified land development and allocation issues that were vague both for the land administration office and the public at large.

**Modes of urban land delivery**

The main requirements for eligibility to get land for housing in the leasehold period have similarities with the previous socialist period. However, additional requirements were also added, mainly deposit of money both for individual and cooperative form of housing developments. In the framework of public ownership of land under the Derg regime, there are three main ways of acquiring urban land for housing. The first way is to formally apply for land to the City Government on individual basis or through housing cooperatives. The second option is to buy land disguised as house sale from individuals who hold land legally or semi-legally in already developed areas. The third option is to illegally squat or buy land from persons who have no legal rights to sell land. This last option is practiced at the urban fringe both within the boundary of the City and its immediate surroundings.

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### Table 5: Comparison of Leasehold Policies of Addis Ababa & Oromiya National Regional State

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixing lease rate</td>
<td>Not explicit, but minimum rate existed.</td>
<td>- Minimum lease rate to be fixed by the administration,</td>
<td>- Minimum rate defined based on land rent, house tax &amp;</td>
</tr>
<tr>
<td></td>
<td>- Lease rate to be set by public tender</td>
<td>- Lease rate to be set by public tender,</td>
<td>cost of infrastructure,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Public tender for city centre land,</td>
</tr>
<tr>
<td>Subsidy for housing</td>
<td>Lease rate for 73-175 m² = 0.50 cents/year/ m²</td>
<td>- Lease rate for 105-175 m² = 0.50 cents/year/ m²</td>
<td>- Up to 200 m² through rent system,</td>
</tr>
<tr>
<td></td>
<td>- Below 73 m² free, above 175 m² by tender</td>
<td>- Above 175 m² by tender</td>
<td>- Above 200 m² leasehold</td>
</tr>
<tr>
<td>Land allocation mechanisms</td>
<td>- Auction, - Negotiation, - Allocation,</td>
<td>- Auction, - Negotiation, - Allocation or awarding</td>
<td></td>
</tr>
<tr>
<td>Period for launching construction</td>
<td>6 months for housing (individuals and cooperatives),</td>
<td>18 months for housing; and 18-30 months for all other class of uses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>18 months for investors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grace period for completion of project</td>
<td>Not specified</td>
<td>No limitation for housing; - 2-5 years for investors</td>
<td></td>
</tr>
<tr>
<td>Size of holding in m²</td>
<td>Fixed for housing with minimum lease rate (73-175 m²)</td>
<td>Fixed for housing with minimum lease rate No maximum for other uses</td>
<td>Fixed for housing in rental administration (200 m²), No maximum for other uses</td>
</tr>
<tr>
<td>Scope of application</td>
<td>- Commercial establishments on existing possessions</td>
<td>- All new developments - Existing possessions upon redevelopment - Existing possession upon request for transfer to leasehold, - Request for expansion (on part or whole of existing holding)</td>
<td>Urban centre of Level one and two only, - Commercial holdings not covered by rent, - New developments - Existing possessions by application for transfer to leasehold system, or when they request for expansion</td>
</tr>
<tr>
<td></td>
<td>- New developments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Existing possessions by application for transfer to leasehold system,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Or when they request for expansion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Title transfer</td>
<td>- Transfer allowed but rights for real estates developed for sale not clear, - Capital gains tax + 10% required</td>
<td>- Conditions for estates developed for sale not clear</td>
<td>- Land title and possession right over house clarified for real estate housing development</td>
</tr>
</tbody>
</table>

**Sources:** Reg.No.2 & 3/94, Reg.No.29/2002 for A.A. and Consolidated Reg.No.1/19955 for Oromiya

In the formal system, there are three ways of land delivery for new requests from the City Government: normal lease, lease-grant and lease-by-administrative fiat [25, p.89]. The first option refers mainly to delivery of land through auction or negotiation for investment activities. The second alternative covers those sectors of the economy that the Government intends to promote, such as low cost housing, and social services. The third kind refers to the special power of the Executive Council of the City Government to transfer rights on land to individuals honoured by the administration for various merits. The requirements and procedures for formal land acquisition for housing seem to be straightforward but in practice getting land formally has proved to be difficult. The main cause for this situation is the scarcity of developed land commensurate with the need. The lack of infrastructure in areas where land was delivered for development has also delayed effective occupation of the areas. Real estate form of housing supply is partly a response to this protracted process of land delivery and housing development.

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PART III - CASE STUDIES OF TWO REAL ESTATE HOUSING DEVELOPMENTS IN ADDIS ABABA

Selection of Case Study Areas and Framework for the Descriptive Analysis

The main materials or subjects to be investigated for this research are urban land and housing development policies, real estate developers, and clients of real estate developers. The first part was investigated in the previous sections. The selection of real estate developments for the study was based on level of operation (must have started construction), size of operation and possibilities for acquiring data. A framework for the description of the analysis was developed based on the main issues of the research and the empirical data from the fieldwork. The following list shows the main topics.

1. Land acquisition procedures,
2. Accessibility of houses: cost of houses and financing methods,
3. Socio-economic groups served by the estates,
4. The two real estate developments selected for the study are Ayat Real Estate and Habitat New Flower Homes. These two real estates are among the most active real estates in the City.

Ayat Real Estate Development

Location and description of the development

Ayat Real Estate Development is located in Yeka Sub-City (former Kotebe district Woreda 28 Kebete 04). Kotebe is one of the expansion areas in the Eastern part of Addis Ababa which has continued to attract developments of different kinds, both formal and informal since the 1980s. Ayat Real Estate Development Enterprise (for short Ayat) is the first private real estate developer in Addis Ababa. Ayat got approval of its investment plan and applied for land in 1995. It took three years to get land. The processes involved in the land acquisition showed high levels of informality. The development site was identified by the real estate developer irrespective of the phasing of developments of urban areas. According to the management of Ayat, the factors for the choice of the site were the ease to acquire the land, lease price, accessibility of the site, and topographical situations. The area was an open grazing land, this has minimised the compensation to be paid to the former landholders. The development area is located at the outskirts of the urban area, so the lease price was relatively low (Birr 129/m²). The site was accessible via an asphalted road that was constructed in the 1980s as part of the Special Housing Project. Furthermore, Kotebe is one of the districts for high quality stone quarries in Addis Ababa, hence the development site is located near a vital construction material.

Ayat has plans to develop ultimately 6,500 dwellings, shopping centres, public facilities and recreational centres. The whole development was planned to be developed in several phases. Currently, 1,500 houses are developed, but only about half were occupied at the time of this study (Fig. 1).
Wubshet Berhanu

Notes

1. The main central spine running N-S is part of the planned Ring Road that will connect the current Ring Road with the Dessie Road.

2. Parcelled lots are those that are being developed now.

3. The empty blocks represent the leased land.

Figure 1. Site Layout of Ayat Real Estate Development

Land acquisition, development planning & spatial characteristics

Land acquisition

In the acquisition of land, Ayat negotiated with the Addis Ababa City Government as well as the farmers. The methods of negotiation used by Ayat with the farmers include providing incentives (training, on-site job, finance, etc.), disseminating information on how they will be treated by the AACG if they do not cooperate, and also employing a private security force to hold the land. In the negotiation for compensation, Ayat was on the side of the farmers: more payment for the farmers would help Ayat to get the land more easily than if farmers were dissatisfied. The compensation was paid directly by Ayat but the fee was deducted from the lease price. The rate of compensation for the farmers was about 5 Birr/m². This rate was higher than the rate of compensation that the City Government paid in other areas. For example, in Mekanissa III, farmers received about Birr 3.75/m².

The size of the development area to be used for housing is about 293 hectares. There was disagreement between the City Administration and Ayat on the part of land that should be “liable to lease fee payment” and “lease-free” land. Through negotiation all areas used for through-traffic and residential open spaces were exempted from lease fee. However, it was unlikely that the sites exempted from lease fee would be kept open for the public. This study confirmed that there had already been violations to this provision; houses were already constructed on open spaces and on plots reserved for public facilities in the approved plan.

Ayat mender was planned as a self-contained neighbourhood, when fully developed it would have all necessary facilities. The private sector is expected to provide the facilities. Ayat plans to act as a developer, not as the sole owner of all the facilities to be provided in this mender.

House types and the residential pattern

There are mainly three house types in the development: 1) standard houses, 2) special houses, and 3) low cost houses. The standard houses were subdivided into villa type and two storey type (G+1). The plot sizes for the villa type range from a minimum of 225 to 400 m². The two storey house types have plots of 300-500 m². The minimum house area in the standard...
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houses category is 80 m². The special houses were planned to be built on request; size of plots and house types were not defined. The low cost type was not really that low on cost. The term as used by Ayat simply implies the construction would not be complete; no site work will be done and no service quarter will be built by the developer. The plot sizes for this house type range from 105 to 250 m². The minimum size of a house on such plots is 25 m².

The composition of houses was typically Addis Ababa style: there are two blocks—the main house and a service quarter. Concrete frame structure and an infill of either concrete block or brick were used in the construction. None of the houses were attached to each other (even those called low cost houses). The main building materials used for facades were concrete blocks and red brick; in some cases decorative stone was used near the entrance. A front garden was provided in most cases. The development does not have a general water-borne sewage disposal system, each house has its own septic tank located in the front garden. Front fences are composed of stone work, concrete block wall and iron works. Boundaries between plots have concrete block walls of up to two metres. The height and design of the front fence complies with the City’s planning standard. Ayat claimed to have made continuous consultations with prospective homeowners about having similar fence designs. The one-time and one-developer mode of development has produced a clear road network and a unified streetscape. Each block is developed with only one house type. The development of houses of similar design for a full length of a block is rare in Addis Ababa.

Modalities of housing development

Ayat started as a real estate developer, but analysis of its operations showed that it was mainly a management consultant rather than a developer. Clients choose a plot size, location, and house type. They also choose the method of payment from one of two options: 1) cash, or 2) mortgage. The cash method of payment was arranged in such a way that clients pay in installments proportional to the progress of the construction. At completion of the house the client must have paid all costs. In the mortgage system the client was required to pay 50% of the construction cost at the beginning and the remaining 40% with interest over up to thirty years period. Currently the mortgage form of housing development was not operational. There are also houses which Ayat intends to develop with its own capital, and sell them either for cash or mortgage, but these houses represent a very small part of the development.

The developer was working mainly with clients’ capital; the clients seem to be shareholders and the developer simply a management consultant. The full-cost-cash-payee group could have taken land from the Lease Office and employed a contractor. The mortgagers could have borrowed money had there been access to housing finance. The logical conclusion from this analysis would be that potential home builders were obliged to resort to such expensive options mainly due to the obfuscation and the inefficiency of the land delivery system and the non-responsive financial system in the country.

During the 1997-2000 period the construction of houses was carried out both by Ayat Construction Brigade and labour contractors. There was no third party to check the quality of the construction; the technical department of the City Government had no capacity to ensure compliance to approved plans. As a result clients had to accept what was on offer. But by 2000 Ayat was persuaded by the City authorities to employ two consultant firms to supervise the construction works. It was observed that clients have various demands that could not be fully satisfied without the intervention of a third party. The intervention of the owners during construction might be good for the final result, but this is a peculiar form of real estate development.

Socio-economic groups served by Ayat

Cost of development for the least size house (two rooms) on the least size plot (105 m²) amounted to about 45,000 Birr (as of 2001). The sale price of such houses was about 50,000 Birr and 57,000 Birr for cash and mortgage respectively. If the sale was on mortgage, it required an initial deposit of about 25,000 Birr. The remaining 32,000 Birr had to be paid over a maximum of thirty years. This requires a monthly instalment of about 125 Birr. Assuming that all capital will be borrowed from commercial banks (at interest rate of 10.5% per annum) this loan is affordable to less than 5% of households in Addis Ababa. More over the initial deposit of Birr 25 000 is a burden that most households cannot afford to pay. The sale price does not seem to be inflated for the standard of construction employed here. The lease fee (which accounted for about 30% of the construction cost of the smallest house) has contributed to the high cost of the housing development.

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The investigation conducted to identify the socio-economic groups who would be future residents of Ayat mender showed that they are high-income persons operating in the private sector. Although it was not possible to confirm the proportion, people who live and work abroad constitute a substantial part of the future homeowners in this development. If this is the case, then it is likely that the economic status of the legal homeowners and the actual residents would vary. The absentee homeowners may rent out their dwellings or they may have a second household of their own occupying the dwelling. This situation will create an area with a dual system: a housing class clearly indicating the occupants and a housing class with different occupant/owner status. Moreover, Ayat real estate development is likely to be an island of middle and high income groups amid very low income households.

Habitat New Flower Homes Plc.-Kaliti site

Description of estate

Berta-Habitat developed housing estates are found at two sites in Addis Ababa: in Kotebe, near the Special Housing and at Kaliti. Both sites are about 10 km away from the City Centre. This detail case study focuses on the Kaliti site. Habitat New Flower Homes Plc. and Berta Housing Development Organisation are sister companies: the first specialises in real estate development planning, design, and marketing while the later operates as a contractor. These establishments also have affiliated companies that supply wall, floor, and roofing materials; and workshops for the production of metal and wood components for buildings. As a contractor Berta has had experience in land and housing development as early as the mid 1970s. The town houses it developed at Wollo Sefer in Addis Ababa exemplify its approach: this gated community has a well-organised service system with limited accessibility to outsiders.

The real estate development at Kaliti is located about 800 metres from Debre Zeit Road. Big stores, workshops industrial and agro-industrial plants occupy the area around the housing estate. Kaliti lies in the Southern part of Addis Ababa where the majority of industrial establishments are located. This estate was a dairy farm for over thirty years. The site belonged to the Berta-Habitat owners’ family starting from the private landholding period. Regardless of its location and the neighbouring properties, this housing estate is designed as an exclusive high-class residential estate. At completion, the estate will have about 200 homes, an artificial lake, and an in-door as well as outdoor recreational facilities (Fig. 2).

Legend

1. Community Facilities;
2. Outdoor recreation grounds;
3. Artificial swimming pool.
4. Reserved space.

Figure 2
Source: Habitat New Flower Homes Real Estate Developer, 2003

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Land acquisition, development planning and spatial characteristics

The Habitat New Flower Homes housing estate at Kaliti was planned on previously held land. The procedure for the conversion of land use starts with a landholder applying for change of use by presenting project profile. If planning consent is given, then site planning and design for capital projects will proceed. Upon submission of the proposed layout and detail designs the City's planning and building permit department reviews the proposal and upon fulfilment of requirements a building permit is issued. Developers are expected to adhere to the approved site subdivision plan and building layout and detail designs. The developer has passed through this process but the ambiguity about space standards and about the power of the City Government on land held prior to the leasehold policy has complications. If a developer fulfils the minimum standards, subdivision plans and building design could be approved. The question is in the absence of a maximum limit for land holding and clear space standards, while at the same time declaring land a public property, what are the criteria for site development? Space standards should be applicable city-wide, variations may be acceptable to a certain level, but in a city where horizontal expansion is to be curbed, where the size of land for individual allocation is getting lesser and lesser, the development of very wide green-fields in the serviced areas of the City produces inefficient urban system. In this regard, the physical layout and space standard of Habitat Homes at Kaliti is a class of its own (Fig. 2).

Housing types and physical development

This housing estate has basically six types of houses. The plot sizes range from 250-1000 m² and the area of the houses from 72-289 m². One of the peculiarities of this housing estate is the use of basement floors for service rooms and the incorporation of carports within the main building. The Eastward slope and the large size of the estate has facilitated the use of basement floors. When the site is fully developed, it will have shopping facilities, a gathering, catering and indoor as well as outdoor recreational facilities, and an artificial lake in lieu of the wetland within the premises. The developer plans to create a gated-community where the housing estate will be self-sufficient, fenced and gated; internal roads and facilities will be privately owned. This might be a natural reaction as the surrounding area is not of a similar standard.

Affordability of the housing estate

The minimum cost of a housing unit at the Kaliti site is about Birr 500,000. The method of financing the development is through users capital. Each house is developed for a real client. Applicants register for a house type and plot size of their own choice. Upon agreement, clients are required to pay a down payment of about 10% of the cost of the house type they chose. The developer/consultant has produced a variety of designs and sale prices for each type. Clients are required to pay instalments at certain stages of the construction. Clients can bring their own supervisor to monitor quality and pace of construction. Bertas acts as a contractor and Habitat Homes as a consultant in the development process. Through this arrangement Habitat Homes supervises the works, authorises variations in design at the request of customers, and also negotiates costs for the variations with the clients. The whole operation resembles a normal owner-consultant-contractor form of construction management. Variations that are acceptable to the developer are then specified in the agreement between customers and Habitat Homes. Customers cannot specify different materials that the sister companies do not produce. However, within the limits of the agreement, customers are assured to get a property of their liking within the time and the budget they agreed with the real estate developer.

Socio-economic groups served by the estate

The cost of houses is a good indicator of the economic groups to be served by a housing development. In the Habitat New Flower Homes-developed housing site the minimum house cost being over half a million Birr, the customers of this real estate developer must be high-income groups. It was not possible to get sufficient data to describe the social and economic characteristics of clients, but discussions with few clients and Habitat Homes indicated that the majority are Ethiopians residing abroad and few business operators in the country. In fact, most of the clients are not shelter-needy households; rather the purchase of homes in such real estates is part of accumulating property and a way of upward mobility in social and economic spheres. Those interviewed indicated their preference for the estate on its exclusiveness, the high quality of its infrastructure and open space standards.

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PART IV - DISCUSSION OF RESULTS

The foregoing review of urban policies, housing development practices, and real estate housing developments indicated that land and housing development mechanisms have sets of problems. Policies for land and housing development since the nationalisation of urban land have not kept pace with the complexity of urban development issues and the demand for housing. Since the liberalisation of the economy and the enactment of the leasehold policy for urban land, real estate development has become an acceptable economic activity. However, as this study revealed, the environment necessary for its operation did not seem appropriate to make real estate development a viable form of housing supply. The main findings of the research are discussed in the following sections.

Environment for Real Estate Developments

Real-estate development is a highly interlinked, high cost operation that requires a well-functioning private property system capable financial sector transparent legal and economic system. Real estate development cannot be a profitable activity unless other sectors of the economy operate in fully legal and transparent way. For example, if whole sale and retail trade is not taxed properly, whereas a real estate developer cannot evade taxes, it follows that, either no one operates in real estate or real estate developed properties become very expensive. Moreover, as real estate development is an expensive activity it requires an efficient land delivery system from land acquisition stage to the disposal of developed properties. Where these requirements are deficient, real estate developers become few in number, real estate developed houses become expensive. Consequently, only the very few high income groups could benefit from the division of labour as developer and home buyer.

In a well-functioning economic system the operation of real estate development has the following actors and division of activities.

A. Land developers

Landowner (private or public ‘body’) transfers development right to a land developer. The land developer surveys the land, prepares plot subdivision plan, acquires planning permission and provides infrastructure. The developed land is sold to real estate developer/s. The land developer may borrow money for the development of the site. He/she repays the debt upon the sell of the plots. The principle of land pooling operates with such mechanisms.

B. Real estate developer

The real estate developer buys a serviced estate from a land developer. The developer of estates prepares design of houses and services, acquires building permit from a municipal office, develops the estate and sells the homes and services through its marketing branch or through brokers. It collects its sale price and transfers property rights to its customers. Real estate developers normally borrow money from a financial institution; the borrowed capital will be returned upon the sell of developed homes and services.

C. Financial institutions

Land developers, real estate developers and homebuyers require loan facilities as real estates are costly compared to monthly incomes. The loan debt for the development of a plot passes from the land developer to the real estate developer and then finally to the home-buyer. The system requires a stable economic system. What is traded is rights over property, hence a system where efficient and transparent system for recording of property, mechanism for enforcing the payment of borrowed money, and means for encouraging higher frequency of property transaction are some of the prerequisites for the operation of real estate development.

Therefore, in the absence of loan capital the operation of real estate developers is likely to resemble the operation of housing cooperatives. This is what is happening in reality in Addis Ababa, as shown in the two case studies. These real estate developers resemble management contractors; they operate on behalf of their customers who are the real financiers of the developments. If that is the case, the customers could have done better, at least in terms of finance, had they got the chance to acquire developed land. The real estate developers operating in Addis Ababa are performing the task of the government, of course for a financial reward.

Ambiguities in Real Estate Form of Housing Development

Various levels of ambiguities are observed in the relationship between developers and the City Government; the developer and its customers; and between customers and the City Government. Real estate developers seem to
assume that once they had taken land they could do
whatever they want that is profitable within the
limits of legality. Government officials view real
estate developments as big housing cooperatives and
the different authorities seem to expect loyalty and
even favours. Up until 2002, customers of real estate
developers were viewed as individuals who have
bought a property in any part of the City and they
were required to pay transfer taxes and different
duties. Real estate developers were also expected
to pay capital gains tax. Although it took a decade to
rectify the situation, Proc No 272/2002 has addressed
the issue of capital gains tax. However, there is still
no clear regulation that guides the operation of real
estate developments in Ethiopia.

**Real Estate Form of Housing Development and**
**Development Control**

Bigger units of development have their advantage for
development control. The task of the planning and
building permit department is reduced substantially in
direct proportion to the size of development land.
Moreover, sites that are developed in short space of
time by one or only few developers has the benefit of
impacting identity to an urban area. Compliance to
planning regulations is also easier to control when the
package of housing development is larger.

Another very important factor in relation to
compliance to planning regulations and building
codes is the involvement of loan finance. The
lender has an interest in the property; non-
compliance to regulations lowers the value of
property. Hence, banks scrutinise compliance much
more strictly than municipal officers. Real estate form
of housing has that potential for compliance, but
empirical investigation has shown the reality is
counter to this. This is attributed to the customer-
financed real estate development modality.

Real estate form of housing was observed not to
promote densification; it rather promotes horizontal
expansion. This condition arose as a result of the
indiscriminate subsidy accorded to housing. The relief
from paying lease fee on communal grounds, right-of-
ways, etc. without fixing an upper limit to space
standards encourage extravagant zoning of urban
land for communal facilities at planning stage, and
conversion of uses later. In other parts of the City, for
example, at Leloo housing site, the City Government
has lent out open spaces planned for communal use. It is socially unjustifiable, especially in the
context of public ownership of land, to reduce
common spaces in areas where the majority have
smaller size private plots while at the same time
allowing generous space in already spacious
subdivisions as in real estate developed housing
sites.

Another phenomenon that arose as a result of
non-regulated allocation of land for real estate
development is the trickle down effect. Real
estate developments are found at the outskirts of
the City. As a result, under-developed pocket
sites are created between the contiguously
devolved urban proper and the real estate
neighbourhood. This might be viewed positively or
negatively depending on the vantage point.
Urban development where a phased operation is
not applied has implications for land and
property value gradients. The flexibility of
policies, i.e. indeterminable conditions, creates
fluctuations in land markets, consequently
speculation in land will be very high. On the
other hand, pockets of under-developed land
provide opportunities for correcting mistakes.
The underdeveloped land could be redeveloped
for desirable uses. However, such situations are
clear manifestation of development that is not
plan-led.

**Size of Real Estate Developments**

Size of land that is leased to real estate
developers is a critical issue that has not attracted
the attention of urban land managers until now.
Allocating large parcels of land for a single
developer is tantamount to transferring un-
proportional rights from public bodies to
individual investors. In fact, this is in keeping
with the situation of having no regulation on
monopoly conditions in business, but it has
serious repercussions on socio-economic
composition of urban areas and on fairness to
other developers. In the case of real estate form
of housing, unregulated allocation of land is
observed to have created a socio-economic
composition that is contrary to the composition
observed in traditional urban areas in Ethiopia.
Declared gated-communities are being created.
A big real estate helps to offset neighbourhood
effect as externalities could be controlled, but
this is of a limited advantage to the City.
Segregation based on economic grounds will
create polarised conditions. It is unavoidable to
have small pockets of homogeneous socio-
economic groups, but the allocation of hundreds
of hectares to a single developer results in tens of
thousands of people of a similar income to

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resided in close proximity to each other but in opposition to a larger group of deprived households.

**Affordability of Real Estate Developments**

Real estate developed housing units up to now are high cost. From the two real estate developed areas in the present study, Ayat is more accessible to middle income groups than Habitat Homes. However, due to the modalities of payments and the lack of housing loan, all the active real estate developments are inaccessible to all low income groups and to the majority of middle income groups. The contribution of land value to the cost of real estate developed houses is substantial. At minimum, land value accounts to about 30% of the development cost. It follows from this that subsidy in the acquisition of land contributes a lot to the accessibility of housing. However, one of the main limiting factor for the accessibility of land and housing to low income groups is the non-existence of government organised housing loan finance. Real estate developers have circumvented this problem by limiting their operation to those who can pay cash and to a level of operation they could finance from their own savings. It follows from this that, for real estate form of housing supply to be accessible to the majority and to contribute to the supply of housing substantially, Federal and Regional Governments should address problems related with housing loan.

**PART V - POLICY IMPLICATIONS OF THE FINDINGS**

This section contains main conclusions that could be drawn from the study, policy options will also be recommended.

**CONCLUSIONS AND RECOMMENDATIONS**

Real estate form of housing development is a new approach to housing supply in Ethiopia. Prior to 1975 landlords used to develop houses for rent; however, there were no formal developers who construct housing for sale. During the 1975-1991 period it was forbidden to benefit from economic activities that involved land as one of the commodities. In the 1990s the private sector was encouraged to participate in housing development. Currently there are many real estate developers in Addis Ababa and a few operate in the Oromiya Regional State. No real estate developer is operating in the Amhara Regional State, the trend is expected to be similar in other urban centres too.

In a situation where housing shortage is acute and the intention to get land privately is high the rate of participation in the allocation of land for individuals by lottery has always been below the number of plots on offer. Thus in the seven rounds of lotteries between 1994 and 2000, out of a total of 4,973 plots only 41.2% were occupied. The total number of participants was 3,064 persons only, i.e. less by about 40% from the number of plots on offer [27]. The main reasons for the low participation rate were the inappropriateness of the location of plots and the lack of basic infrastructure, such as water, electricity and access roads. In the case of public tender for land in Addis Ababa, the City administration has been operating similar to speculators. Pocket sites left as open spaces were sold out a decade after they were first planned for another function. The creation of pocket sites is still practiced through the provision of planning permission for land located beyond the developed part of cities.

The study indicated that real estate developed houses constructed up to now are accessible to the high income group only. This is still a good step in housing supply, as the satisfaction of demand by these groups will relieve the pressure on other forms of housing. However, for real estate form of housing supply to be a sustainable business, it should be able to penetrate the wider market of low and middle-income housing. For this to happen, the land allocation, housing and financial system is required to be responsive.

The following issues are considered to be some of the major lessons derived from the study. The policy options are only indicative of what should be done to address problems as understood in the study. The options are categorised into three parts:

1. Housing subsidy through land allocation
2. Modes of real estate development for low income groups
3. Need for guidelines for real estate developments

**Housing Subsidy Through Land Allocation**

For real estate development to be a viable mode of housing delivery, free delivery of land should be limited to those who deserve subsidy. The basis for this statement is that unless housing
supply operates in the real market, the anomaly that government intervention creates will be detrimental to the housing market. The study has shown that land accounts for a substantial part of housing cost, hence it should be delivered consistently by paying due consideration to household income, at cost plus for the high income, at cost for middle income, and at subsidised rate for the lower income group. The main questions have been how to retain subsidised land allocation in the hands of the eligible and to minimise change of use of urban land and housing, and the wisdom of curbing urban change. Policies that address these issues are highly necessary.

Subsidy for housing could come in various ways. Mixing low income residences with middle and high income groups could result in partly subsidising low income households. Tax subsidy based on family size and level of income as practised in developed countries, this might prove difficult in a situation where the majority are in need of basic subsistence. However, in situations where the Government supports low income housing schemes, the subsidy ought to be household-based and congruent of others in similar conditions. The emphasis given to policy issues with regard to housing development was ownership mode of development. However, in modern labour and industrial organisation, the development of rental houses is a matter that needs encouragement. Lowering taxable income from house rent is one option. Britain has had 90% of its population living in rented residences at its peak economic period in 1914 [28].

Specifying minimum number of years that a subsidised-landholder should hold property before transferring title and requiring a minimum level of development prior to selling could curtail transfer of land. It is also possible to regulate change of use of urban land and property by coordinating the permit system for business activities and the building permit system. However, care should be taken not to stifle urban transformation by having rigid permit systems. Moreover, this system requires effective follow up. In situations where the follow up is minimal, land allocation at subsidised rate should be minimal.

Modes of Real Estate Development for Low Income Groups

Low income residents constitute the majority of urban households in Ethiopia. Who should cater for these households has been a critical issue for the last thirty years. National and international experience shows that unless housing is seen as part of the economic system of a country, i.e. unless it operates in similar market environments as other businesses, the likelihood of its success is minimal. Due to several policy constraints, real estate developers are observed not to cater for low income groups. However, if housing should be a business, real estate form of housing delivery system should be one of the main mechanisms for housing development. The following issues should be understood and addressed for real estate development to be a viable housing supply system for low income households:

- Operational problems that limit real estate developments as an economic activity and the promotion of build-occupy principles negate the central issue in development: that of division of labour. The user-developer approach has effect on the economy and urban management. User-developer mode of housing supply, as practised during the 1980s, promoted subsistence form of housing production. It encouraged the use of public fund, public time and resource for the development of private houses. Therefore, real estate form of housing development is an advanced and efficient form of housing development.

- The traditional cooperative form of housing development is unattractive for user-developers if there is no government subsidy in various ways. However, if cooperatives are organised into mother and daughter form of housing cooperatives, the mother cooperative could act as real estate developer for members. In such a case clear financial relation with future homeowners should be developed. Members could contribute labour but it should be calculated at a rate payable to any normal employee for that kind of service. Up to now housing cooperatives and real estate housing developments in Ethiopia are organised with the sole purpose of withstanding land delivery hardships. Therefore, with an efficient land supply in place, traditional housing cooperatives and the current types of real estate developers will have reduced importance.

Non-profit housing developers (municipalities, NGOs, CBOs, etc.) could develop houses for rent or for personal ownership after repayment period. Seed capital for operation could be advanced and
the repay capital could be given as loan to prospective homeowners. However, income generation in home-based activities should be included in the system to enable borrowers to repay their debt. The experience of international NGOs and that of GTZ in urban centres support this concept. Safeer Jdirs could be transformed into real estate housing developers. Women’s associations, youth associations, regional development associations, and other endowment organisations could engage in housing development. The case from Narobi where women’s association is active in housing is a good example.

- Lowering planning and construction standards is a key to promoting access to housing to low income groups. Currently, there are no statutory planning standards and building codes to regulate development. However, the directives in use limit accessibility of housing to the low income group. The accessibility of a standard house (20 m² space and concrete block construction) in Addis Ababa has limited the accessibility of housing to less than 39% of income earners [8, p. 183].

**Need for Guidelines for Real Estate Developments**

There are various issues that are ambiguous for both municipal officers and real estate developers. Subsequently each party pulls the operation to suit his/her needs. The issues which became clear in this study that deserve policy attention are standards for open spaces and public facilities, sizes of estates for single developers, and status of subdivision plans and building permits for real estates.

Standards for open space and space for public facilities are not the same for real estate developments and other housing developments. For example, in Lafto the government leased existing communal open spaces whereas in Ayat and Habitat New Flower Homes the open space standards are generous. Planning consideration works with minimum, maximising open spaces does not seem a problem at first glance. But, when seen in the light of government ownership of land (even land used for open spaces and public facilities in real estate developments) variation in open space standard should be a public issue.

The unregulated size of real estate developments creates problems in various ways. The estate cannot be developed in short time, then the estate holder becomes a speculative landlord. The landlord may maximise his profit from the rise in land value but the government or the public become losers as no income is derived from the leased land with specified development during the idle period. Another disadvantage comes from the social composition of urban areas. A large sized real estate is prone to the production of polarised socio-economic groups.

**END NOTES**

1. The analysis of Ayat Real estate Development is based on the in-depth discussions held with senior project staff (June-July of 2000), with a site engineer of a consultant firm supervising the construction (July 2001), planning officers and the head of the Lease Office at the municipality (May-June 2000 and July 2001). On-site observation was also made during the above two fieldwork periods and in April-May 2003.

2. Analysis of the Habitat New Flower Homes developed site at Kaliti is based on the data collected in April-May 2003.

3. A preliminary part of this paper was presented on a workshop organised by the National Urban Planning Institute under the title “Prospects for real estate form of housing supply in Ethiopia” in June 2003.

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