

# Examining Rental Housing Affordability Among Eastern Ethiopian Cities

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## Abstracts

The rental sector had been neglected in government housing policy as well as in the local government's resource allocation, though it apprehended a large number of urban dwellers and which will undoubtedly continue in the future. The objective of this study is to examine the rental housing affordability and its implication for low-income households. Specifically, it tried to critically evaluate the characteristics of rental housing, examined how affordable rental housing is and identify the legal and regulatory frameworks governing the rental housing market and finally based on the findings tried to devise a possible alternative that can enhance rental housing affordability. Questionnaires were distributed to 1162 rental households and officials were interviewed to capture their experience on regulatory and administrative issues. Global and local experiences on government housing policy and strategies revealed that the rental housing was less emphasized or in some cases, it was totally ignored. However, inter-census results population of confirmed that rental sectors had contributed a lot in addressing the residential needs of the urban poor and the contribution of the sector in addressing the housing needs are raised from 45percent to 54percent and the reverse is true for the case of home ownership. Results from the survey report confirmed that the rental levels in the sample cities were at the threshold levels. However, this does not mean that rent is affordable; rather the lessee had compromised with the adequacy of housing in order to avoid high rental price. Therefore, government should devise alternatives to promote rental sectors through regulation and policy interventions. Among the possible measures, getting rental housing on the larger urban policy is the first and most important intervention. Government should regulate the rental market through regulatory and policy measures by making balance the interests of both landlords and renters.

**Keywords:** Rent, need for a rental housing, private renters, *affordability measures*

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## 1. Introduction

### 1.1 Background of the study

Housing is one of the basic necessities for humans and it accounts for the largest share of household consumption expenditure. Though their motives vary, the private sector, the public sector, and civil societies are already producing housing. However, production falls far short of providing decent and affordable shelter for all urban households. As a result, many those who cannot have enough money to live in the formal market are pressured to share housing with family or friends or to lease (UN-HABITAT, 2008).

While the incidence of renting varies considerably across the world, rental housing accommodates a significant proportion of urban residents. Figures from the United Nations Population Centre indicated that an estimated 1.2 billion of the world's population are accommodated in rental housing. In Seoul, the number of renters rose from 883,000 in 1960 to 5.7 million in 1985. The proportions of rentals are higher than that of owners in developing countries than in developed countries, though the size is significant even for the less developed countries. In developing countries, for example, from 1994-2001, 63% of housing tenure in Cairo, 82% in Kisumu, 63% in Addis Ababa, 49% in Lagos, 42% in Johannesburg and 41% in Bangkok were rentals. In developed countries, 66 percent of housing tenure in Berlin, 55percent in New York, 41% in London, 54percent in Montreal and 74% in Amsterdam were accommodated in their housing needs through rental arrangements (UN-HABITAT, 2003).

The need for renting depends on socioeconomic and demographic dynamics. Migrants from the countryside to urban areas, new job seekers who recently joined the labor market, divorced or separated families, may all rely at least temporarily on rental housing. For others, renting is a permanent or semi-permanent state because ownership, whether in the formal or the informal sector, is unavoidable. Whatever the cause, a common feature of housing in most developing countries is that the number of urban families living in rented or shared housing has usually increased. Rapid urbanization and the resulting population growth, both through migration and natural increase have stimulated this trend, i.e. because the vast majority of migrants and new urban households initially rent or share accommodation (UN-HABITAT, 2011).

In Ethiopia, though, the number of renters is significant in numbers, and the government's efforts on housing supply are targeted at ownership aspects. Yet numerous government policy document evaluations evidenced that housing policy that is inclined to ownership is long faced with so many challenges and many researchers and urban practitioners have questioned ownership approaches of the housing policy. For this reason,

housing in the form of rental has become a crucial policy issue.

### 1.2 Problem statement

Housing is the prime problems existed in the Ethiopian urban situation. Many official government reports and study results confirmed that Ethiopia is experiencing a dire shortage of housing. The two census results conducted in 1994 and 2007 revealed that there was a shortage of 92 and 128.3 thousand of housing shortages. The results of both censuses confirmed that the shortage of housing unit is a persistent problem. The government estimates that the current housing deficit is between 900,000 and 1,000,000 units in urban areas and that only 30percent of the current housing stock is in fair condition, with the remaining 70percent needs improvements or in some cases total replacement (MoWUD, 2014). A World Bank projection also revealed that besides the current backlog, Ethiopia needs an additional 225,000 backlog/year (The World Bank, 2015).

In recognizing the above problem, the government has put in place various strategies and programs. Nonetheless, the strategies designed to address such a problem were focused on the ownership aspects and ignored one side of the solution for housing i.e. the rental market as one can be observed from housing policy and program documents. In the last decade, governments have spent a significant amount of resource for government-sponsored housing programs and projects. Funds were often made available for the construction of low-cost housing and a self-help housing program intended to alleviate shelter problems.

Nevertheless, the rental sector had been neglected in government housing policy as well as in the local government's resource allocation, though; it apprehended a large number of urban dwellers and which will undoubtedly continue in the future. Despite the decline in support for rental housing, the absolute number of renters worldwide is rising. In developing countries, the largest proportion of renters is in urban Africa; in Asia, renters comprise approximately one-third of the urban population. This is true in the Ethiopian, too. Rental housing is not as an alternative to the housing supply and it was neglected both in the national and local housing supply frameworks. Plenty of work has been done on housing ownership, especially on government-supported housing programs (integrated housing program/condominium/low-cost housing program, cooperatives/self-help housing program and real estate developments. However, the rental housing supply either public or private has been ignored in the housing policies. Consequently, their growth and development have been constrained by the allocation and regulatory inefficiencies. Thus, this study is intended to examine the real problems of the rental housing supply and able to investigate issues that are relevant to the rental housing market.

### 1.3 The objective of the study

The objective of this study is to examine the rental housing affordability and its implication for low-income households. Specifically, it tried to: -

- Critically evaluate the characteristics of rental housing,
- Examined how affordable are the rental housings,
- Identify the legal and regulatory frameworks governing the rental housing market,
- Last it tried to devise a possible alternative that can enhance rental housing affordability.

### 1.4 Study area

Spatially, the study focused on the eastern Ethiopian cities, especially on the cities of Adama, Dire Dawa, Harar, Jigjiga, Kebridehar, and Semera-Logiya. Adama, Dire Dawa, and Harar are amongst the highest urbanized areas and are amongst the trade and service centers of eastern and central parts of Ethiopia along the Ethiopian-Djibouti rail route. Jigjiga, Kebridehar, and Semera-Logiya are less urbanized, but with a high rate of urbanization due to the expansion of trade and investment, change in socio-cultural environment, i.e., change in life from nomadic to urban life, a large segment of the population surrounding these regions have migrated to these cities. Content-wise, the study focused on the current state of rental housing conditions, affordability and regulatory environments governing the sector.

### 1.5 Methodology

The paper tried to highlight how the rental market is exercised in the sample cities, especially the private rental markets. The research approach applied in this paper is a blend of a qualitative and a quantitative approach. The approach enabled to capture existing practices based on literature and some quantitative data collected from questionnaires in the sample households. In each ample city, enumeration areas in which a significant proportion of rentals were identified and selected systematically with the help of the city administration. Questionnaires have been distributed to 1162 rental households to grasp their perceptions on the rental housing. In addition, officials were interviewed and a focused group was conducted to capture their experience on regulatory and administrative issues. Besides literature, government housing policies, and strategies have been reviewed to comprehend local and international experiences.

## 2. Review literature

### 2.1 *The need for a rental housing*

The ownership of one's own home is a widespread ambition and is the focus of most national housing policies. Throughout the world, governments have sought to encourage owner-occupation of fully-serviced single-household dwellings. But in Asia, Africa, and Latin America, this has often only been feasible for middle and high-income groups. Today, a consensus is reached among different policymakers and urban development experts on the problems of the ownership approach in addressing the housing challenges. UN-Habitat recommended pro-ownership housing policies must be changed and try to do something practical to help those members of society who live in rental housing, as well as those who can provide rental housing. However, empirical evidence on rental housing indicated that too few governments had recognized renting as the best alternative to too many people at particular points in their lives, especially during the early age of the housing career and towards the end.

Despite the very effort and financial expenditure so many governments have spent to expand homeownership, rental housing still constitutes a large component of the housing stock in many countries. In Delhi, for example, the number of tenant households rose from 324,000 in 1961 to 545,000 twenty years later. In Seoul, there was an incredible rise in the number of renters, from 883,000 in 1960 to 5.7 million in 1985.

For individuals the reason to choose rental housing over ownership vested on different factors such as the flexibility to move to more attractive units as income rises, households may lack the income to down payment to buy for housing or build their house or be unable to access credit facilities. Furthermore, individuals might get direct rental subsidies from governments. For instance, in the Netherlands, qualified renters can get direct financial assistance and there has been a voucher system in the United States.

### 2.2 *Definition and measures of affordability*

In simple terms, the term housing affordability is defined as the ability of a household to afford to house. A survey of literature on housing affordability revealed there is no consensus among academics and housing development experts on the definition and measures of affordability.

Different scholars defined affordability as the ability of households to pay the costs of housing without imposing constraints on other living costs. The popular approach applied to measure rental affordability is the housing cost approach, commonly known as "rent-to-income ratio". This approach simply conceives housing affordability as a measure of the ratio between what households pay for their housing and what they earn. The approach presupposes that affordable rental-housing should cost no more than a certain percentage (usually about 25-30%) of a household's monthly income (NDUBUEZE, 2009).

Official definitions of affordability have varied significantly over time and between nations. In a productive and high-cost city, households that spend 40 to 50percent of their income on housing and still have resources for all their other needs; in a low-income city 30percent might be a stretch, even for a median income household. In the United States of America, affordability is defined as a home, which costs less than 30 percent of a family's income, in either rent or a monthly mortgage. As a rule of thumb, for rental housing 30percent of income is considered a threshold income reserved for rental payments. If the amount payable for housing is greater than 30percent of household income, housing is considered unaffordable (McKinsey Global Institute, 2014).

### 2.3 *Rental Housing Countries Experience*

Despite years of effort and financial expenditure that so many governments have spent in trying to expand homeownership, rental housing still constitutes a large component of the housing stock in many countries. Why do countries stimulate their rental housing sector? Rental housing offers numerous benefits: aiding a city in developing or redeveloping its urban core, providing shelter to transitional workers and to those who are poor or disabled and it gives short-term workers flexibility and mobility. In recent periods the rental sector has been recognized as an alternative to address housing problems by national and international agencies.

#### **Brazil**

The Federal Savings and Loan Bank created the Residential Rental Program in July 1999. It is a form of rent with the option to buy at the end of 15 years. The secretary of economic policy has studied and researched many alternatives to improve rental markets, including the possibility of regulating rental conditions on individual contracts instead of enacting restrictive legislation. In residential contracts, owners cannot ask the tenant to vacate, except when the contract is for 30 months or more; in such cases, contracts can end automatically with no need for advance notice. Eviction is based on legal procedures.

#### **Republic of South Africa**

The South African government is committed to expanding home ownership on a large scale. In 1994, the ANC made public its housing policy primarily focused on ownership aspects. Citing (UN-HABITAT, 2003) Streek (2001) indicated that a discount scheme offered up to R7, 500 to the one million renters living in state-financed housing and, between 1994 and December 2000, 370,000 title deeds were transferred to council housing renters

for townships.

In 1998 though the government committed to an ownership policy, it was recognized that expanding home ownership alone could not cope with the sheer scale of the housing deficit. By September 1998, the Department of Housing had prepared a draft bill to modify the existing rental legislation. The Act provides a new legislative environment to guide the tenant-landlord relations and encourage future investment in the rental sector. The government also planned for a 'massive' increase in rental accommodation in the form of social housing. However, the supply of houses has not been able to keep up with the increase in housing demand. As an alternative, a small-scale private renting scheme was introduced. The demand for rental housing remains, and something needs to be done to encourage its development.

In sum, the South African government is one of the very few in developing countries that have managed to develop anything resembling a policy for rental housing. However, it was based on some rather questionable practical and financial assumptions.

### **South Korea**

Until recently, the rental-housing sector was considered a residual of the owner-occupied sector, which accommodates those who cannot afford to buy homes. In recent years, however, an increasing number of households have chosen to rent homes, although they are capable of purchasing homes.

Rental tenure in the Republic of Korea is more unique than other countries because "chonsei", which the renters are subjected to security deposits. In this approach, renters make a large upfront deposit to the landlord at the signing of the lease and they need not pay a monthly rent throughout the lease period. The landlord invests the deposit to generate a return equivalent to rent. The deposit is fully refundable to the termination of the lease (Gwayoung, Park, 2015).

Besides, depending upon economic development, social change, change of housing and housing welfare policy, such as the purposes of rental housing, whether to support minimum welfare houses for the lowest income bracket or supporting housing stability for the employees; period of residence which vary from two years up to fifty years and a housing size ranges between under 40M2 to under 85 m2 of public rental housing programs was in placed (Ibid).

### **German**

In Germany, renting is seen as a favored alternative to ownership housing, which stands at 43% of the total housing market. In most other countries, there is a natural push towards home ownership and often a stigma towards rental as the inferior option. The long tradition of renting as the predominant form of tenure in Germany is supported by strong regulation, which secures against eviction by the landlord in most cases and against unexpected rent increases. New rent regulations were introduced in 2001 in an attempt to contain the rate of rent increases. The upper limit on rent increases of 20% over three years, which had previously applied only to properties constructed before 1980, was extended to all privately rented houses (Steve Pomeroy, 2015).

#### *2.4 National housing policy review*

In Ethiopia, the customary tenure system is categorized into three distinctive regimes (Pre-1975, 1975-1991, and post-1991). Pre-1967 was considered to be a period for landlords. During this period, more or less ownership of the land is under the king and the clergy. During this period the main sources of residential housing were landlords and urban housing was produced to address the income needs of the landlords and land supply is not according to the housing needs of the residents. Hence, rent for housing escalated and led to the 1967 revolution. The time from 1975-1991 was considered as the period of nationalization of urban land and extra houses. In this period proclamation No.47/75 was put into effect, in which nationalized urban land and extra houses under the control of the state. During this time the government had been working to attain home ownership for urban residents. Self-help and housing cooperatives were promoted. Construction and business banks established and financed residential developments. On the other hand, rent control and related measures have hampered the rental housing supply.

The third episode accounted for 1991 onward from transitional periods to the current period. The FDRE Constitution made urban-rural land under the ownership of the state and permitted urban areas to be accessed through lease systems. Accordingly, a series of urban land administrations and to transfer and administer urban land, in different periods urban land p i.e., Proclamation No. 80/1993, which permits people to enjoy urban land so as to build houses for residential as well as for rental purposes.

Concerning the housing issuer, urban development policy has devised strategies to enable homeownership and major direction to achieve this objective is the expansion of government-supported program (self-help housing, housing cooperatives, and low-cost housing programs). The urban housing policy document stated that those who are unable to buy their own houses can get access to rental houses and investors willing to supply rental houses can get support on land and infrastructure, design and construction materials. Though the policy document wishes to address housing, however, it failed to materialize with appropriate strategies as it can be expressed by the lack of housing finance to develop housing be in ownership and rental options. In addition,

major policy interventions are applicable to large capital cities and regional capitals and hence failed to address the issue of small and medium towns.

### 3. Results and discussion

#### 3.1 Socioeconomic backgrounds of the renters

Who are the renters? Demographic and socioeconomic background has an impact on deciding the residential choice, i.e., to live in rent or as home ownership. Where there are lots of home choices related to socioeconomic backgrounds (income, family size, marital status, age structure, cultural backgrounds, etc.), probably, but not definitely, the youth who recently joined the labor market, traveling workers, and the city-based poor are expected to live in the rental housing where home ownership is the prior choice in the housing policies.

Observed data from the sample survey indicated that gender and education backgrounds have little role in deciding residential choice. Among the sample respondent, 53.9percent are male-headed households and 46.1percent that of female-headed people. Educationally, 58.1percent have completed primary and high school and 41.9percent have a diploma and above educational qualifications.

On the other hand attributes such as marital status, household size, age structure, and employment situation would play a significant role in deciding whether to live in rental houses or not. The condition of a household, whether someone is single, married or divorced, the age of the respondent and employment situation forced individuals to live independently from family or to live in a co-habitation with other or the situation to buy their own house or rent a house. As we can depict from (Table 6), 64.5percent of respondents are married, 65.5percent of the sample respondents are employed be it permanent or temporary and 54.4percent of the sample survey was multiple families.

Rental accommodation rates have been found to have a strong relationship with households' age structure. Majorities (48.7percent) of rentals are found in the age range of 30-45 years, followed by those 18-29 years (43.2percent). Of the entire sample respondents, 91.9percent were found within a range of economically active citizen categories (18-64) years of age structure. The highly lopsided rental accommodation rate towards the younger generation is the result of current urban land and housing policies. Access to residential land is changed from freehold to leasehold. Therefore, access to residential development is vested with the capacity to pay in the lease market. In addition, the younger generations had been denied of housing, access to the government support housing programs due to cumbersome requirements.

Table 6 Socioeconomic Backgrounds

		Count	Column N %
Gender	Male	626	53.9%
	Female	536	46.1%
	Total	1162	100.0%
Age	18-29	496	43.2%
	30-45	560	48.7%
	46-64	76	6.6%
	65 and above	17	1.5%
	Total	1149	100.0%
Marital Status	Married	744	64.5%
	Not married	379	32.9%
	Others specify	30	2.6%
	Total	1153	100.0%
Household Size	1-2	526	45.5%
	3-5	489	42.3%
	5-7	94	8.1%
	8 and above	46	4.0%
	Total	1155	100.0%
Education Level	Grade 1-8	333	29.6%
	Grade 9-10/12	321	28.5%
	Diploma	196	17.4%
	Degree and above	276	24.5%
	Total	1126	100.0%
Employment Situation	Permanent employed	447	39.0%
	private employed	303	26.5%
	Employed not permanent	283	24.7%
	Unemployed	112	9.8%
	Total	1145	100.0%

Source: Compiled by Author, 2018

### 3.2 Rental housing stock and characteristics

#### 3.2.1 Housing stocks

The two major types of housing tenures that exist in Ethiopia are owner-occupied and rental occupations, though there are a significant number of cohabitations with extended family and friends. Within the domain of the rental option, the private sector, especially the informal one plays an active role in supplying rental houses. In addition, the government in its Kabul and government housing agencies has been supplying a rental housing service to a significant proportion of urban dwellers, particularly in large cities.

Government rental houses are mainly the results of Proclamation No. 47/1975 which expropriates land and extra houses to the public. The government's housing agency administration has a responsibility to administer monthly rental values of over 100 ETBs. Whereas "Kebele houses" are urban houses that had been administered by the lowest city administration units (kebele administration) and its monthly rent value is below 100 ETB. Furthermore, rental housing agencies and city administrations have built additional units for low-income households and government officials, though its volume is insignificant. The results of the population and housing census (1994 and 2007) indicated that the share of rental houses is elevated from 45percent to 53percent and the reverse is true for the case of home ownership. Rental options covered around 54 percent of accommodation service in urban Ethiopia (Table 7).

Within the rental sector, disaggregated data indicated that over the last 25 years from 1994 to 2007, the size of private rental units has increased from 294914 (44.1percent) in 1994 to 1169114 (74.81percent). This is a result of rapid urbanization and the resultant increase in housing demand for residential purpose and hence rises in rental values even for poor quality housing. The rental market has become a promising business for individuals who have extra units that can be rented out. Though there are no disaggregated data that can enable us to point out that the current situation is not available, but the volume of the rental sector is expected to grow in recent periods. The rental market has become a lucrative business for those who have vacant land in their compounds and are able to construct extra units.

Table 7: Housing Distribution among Different Tenure Types

Type of Tenure	Housing Units percentage					
	1994		2007		2016	
Privately owned	704159	47.38	1140214	39.36	1816327	38.96
All Rentals (Kebele+RHA+Private+Other Rentals)	668704		1553850		2,506,811	53.77
'Kebele' owned	348060	52.05	345428	22.68		
Rental House Agency (RHA)	18792	2.81	22870	1.46		
Private renters	294914	44.10	1169114	74.81		
Free from rent	97040	6.53	200955	6.94	306701	6.58
Others	6938	1.04	16438	1.05	31673	0.68
Not stated					441	
Total	1486068	100	2897019	100	4,661,953	100

Source: CSA (1994, 2007& 2016)

#### 3.2.2 Housing conditions

Based on the united nation human settlement program, adequacy of housing, which explained by the physical condition of housing (quality and type of construction material used) and quality of accommodation such as the sufficiency of living rooms, accessibility of basic amenities (access to clean water, access to improved sanitation) and tenure security are essential components in assessing rental housing conditions.

A survey on households' welfare indicated that 77.96% of housing unit construction material of the wall were made of wood and mud, 4.63% with mud and stone, 4.32% with cement and stone, 8.63% with blocks plastered. What makes the situation severe is that there has been a reduction in the average number of habitable rooms per housing unit from 2.1 in 2007 to 1.91 in 2016 and a rise in the average number of people per housing unit from 4.6 per housing unit in the stated period (CSA, 2016).

In other cases, the adequacy of housing, which is mainly attributed to livable rooms and the availability of basic amenities, indicated that 80percent of rentals were living in single room houses. Perceptions of the adequacy of rooms in the household indicated 32.3percent of sample respondents were satisfied with room size and 67.7percent were believed room size was not adequate.

About 40.6percent of rental dwellers had access to private potable waters, 20.7percent of rentals had access to electricity, 19.9percent of households had access to private water access, shared potable water or they could potable large proportions of households accessed kitchen service for their dining and 15.9percent of sample respondents had access to a toilet service privately ( Table 9 Table 9). This implies there is a critical problem with access to sufficient living spaces and there is an implication of overcrowding and there is a problem inadequacy of housing among the rental units.

### 3.3 Rental housing affordability

#### 3.3.1 Household income levels

Assessing household income and expenditure on rental housing are the prerequisites in examining the rental affordability. High and middle-income access to housing finance is not such an issue, so renting is a personal preference. Where, as in low-income countries, there is no such financial market, which supports housing finance and a rental market is a prime choice for families who cannot afford a home.

Based on the federal income tax proclamation (2016) categorization and harmonization of the poverty line (<sup>1</sup>1.9USD/Day), 18.1percent of sample respondents had earned lower than (1.9 USD/Day) which implies, these households are unable to afford to satisfy their basic needs such as food, clothing, and shelter. Individuals in this income range are found under the poverty line and they are unable to pay for rent or can pay by depriving them of their basic needs such as food and clothing. In some condition households, earnings are less than households' expenditure for rental housing. The justification behind this situation is that some households are live in co-habitation/sharing and some have paid their rent from family donations/remittance/ from extended families.

In terms of income households in Kebridehar, Semera-Logiya and Dire Dawa are earning higher than residents earned in Adama, Harare, and Jigjiga. Median income households earned in Kebridehar and Semera-Logiya are about 4092 and 4500 ETB/month, which is almost twice of Jigjiga and Adama city residents earned (Table 8). Kebridehar and Semera-Logiya are the most vibrant emerging cities where socio-cultural backgrounds of the surrounding areas are changed from nomadic life to settled life and national as well as regional government investments are flourished and hence the business environment is changed.

Table 8 Income Categories, Monthly Income, Rent and Rent to Income Ratio

Cities	Income Category Ethiopian Birr(ETB)							Household's	Monthly	Rent-to-	
	<=600	601-1,650	1,651-3,200	3,201-5,250	5,251-7,800	7,801-10,900	>10,900	Income(ETB)	Rent(ETB)	Income Ratio	
								Total	Median	Median	Median
Adama	2.5%	30.8%	41.9%	15.7%	7.1%	2.0%	.0%	100%	2000.00	650.00	30.77
Dire Dawa	.7%	14.4%	38.1%	28.4%	13.7%	3.3%	1.3%	100%	3145.00	750.00	24.27
Harar	2.0%	23.9%	35.5%	23.9%	10.2%	3.6%	1.0%	100%	3000.00	625.00	23.53
Jigjiga	1.1%	17.8%	53.3%	19.4%	5.6%	2.8%	.0%	100%	2500.00	800.00	33.33
Kebridehar	.0%	1.5%	30.8%	35.4%	28.5%	3.8%	.0%	100%	4092.50	800.00	18.09
Semera Logiya	.7%	6.1%	29.3%	32.0%	22.4%	8.2%	1.4%	100%	4500.00	700.00	20.00
Total	1.2%	16.9%	38.7%	25.3%	13.5%	3.7%	.7%	100%	3000.00	700.00	25.71

Source: Compiled by Author, 2018

#### 3.3.2 Household expenditure

To examine to what extent a housing unit is affordable, we must assess the level of income that has been allocated for rent. The threshold income accepted for a household to residential service is about 30% of the monthly income. If a household spent more than 30% of income on housing, the household might be deprived of other basic needs such as food and clothing. Accordingly, respondents were asked about their monthly income and how much they spent on rent. Thus, 62.77percent of surveyed households spent their income in an acceptable range of the threshold income reserved for accommodation services (Figure 1). Spatially, the percentages of income allocated for residential services vary depending on city size and vibrancies of the cities. The median income of the smallest cities (Kebridehar, Semera-Logiya, and Jigjiga) is higher than that of the largest cities such as Dire Dawa, Harar and Adama City). On the other hand, rent to income ratio of the surveyed city revealed that residents in the small city billed less than that of the largest city. The median rent-to-income ratio for Keberidehar is around 18.09 percent and the highest is found in Jigjiga (33.33). The aggregate rent to income ratios for the entire city is about 25 percent (Table 8).

<sup>1</sup>1USD =28.4676ETB. Accordingly the poverty line is  $1.9 \times 28.4676 \times 30 = 1622.6532/\text{Month}(2019-01-29)$

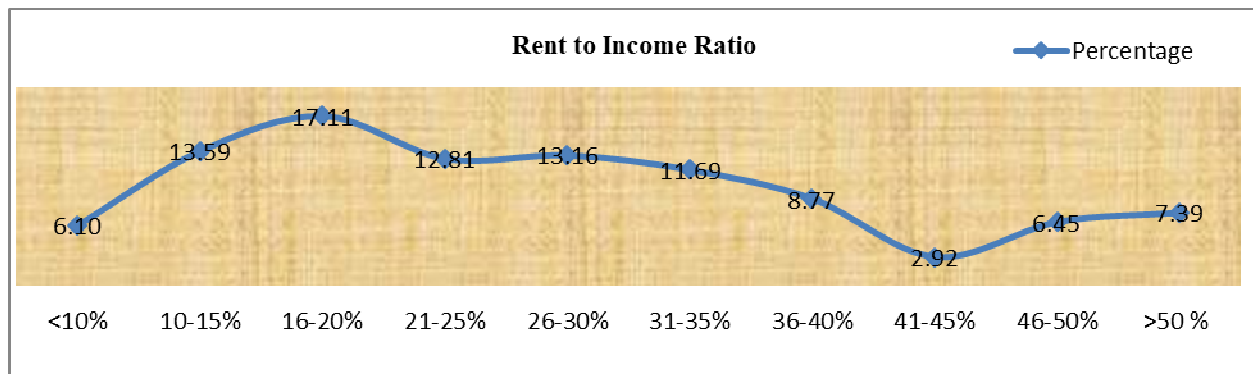


Figure 3 Rent To Income Ratios

Source: Compiled by Author, 2018

### 3.3.3 What determines the rental price?

Cited by (Wickramaarachchi, 2016) Kim and Nelson (1996) stated that, assessing the rental value of residential properties is a complex and challenging process for both practitioners and academicians because it involves analyzing the rental property, neighborhood characteristics, and market conditions.

Empirical studies on determinants of rental prices identified substantial lists of factors that explained market rents for residential properties. These factors range of physical attributes of amenities, services and property management characteristics.

Inter-census results, as well as survey results by the author, revealed that the condition of the houses in Ethiopia is found in poor conditions. Thus, housing attributes were not the primary factor to determine rental values. The most critical factor that has a significant effect on the rental value is the location of a residential site from the city center, speculation created by intermediaries' in the rental market, and information asymmetry by the lessee. In some areas, even monthly rent is determined by the brokers, rather than the homeowners. These make formal rental housing out of reach of poorer households. Therefore, it is important to establish a system that enabled the city administration to govern and regulate the informal leasing system.

### 3.4 What are the legal and regulatory frameworks governing the rental housing market?

In developed countries, rental is governed by legal frameworks where renters and landlord sign agreements that conform to the rules laid down in the rental legislation. This gives both parties the right to go to court in order to redress any wrong doings. In contrast, in most developing countries the rental sectors have informal nature and hence both landlords and renters flout the law because of the inadequacies of the judicial system (Taffin, 2013).

As one can note, as is the case in developing countries in Ethiopia, the rental market is not a regulated market which governs by proper rules and regulations. Even those that are getting rental contracts enlisted in the Documents Authentication and Certification Office are not confident about monthly rent levels and upfront payments as well as the renewal of their contracts. Owners can collect a rental value for whatever is accepted to be reasonable and can expel people in the event that they wish to raise the lease sum. For renters, arbitrary increases in rent levels often force them to make frequent changes in their accommodation invariably affecting their access to transport and basic social services such as education and health services. Families who have school-age children are highly indebted to high rent values as they are not ready to change to convenience sites effectively. Particularly when the household size increases, it is not always easy to find a rental house. Due to this, the lessees are vulnerable to social, economic and environmental crises.

## 4. Conclusion

An attempt to make all citizens own their house is not a practical option let alone in developing countries, it was not possible to realize within the developed nations where housing finance is not such a critical problem and institutions are strong enough to perform their duties properly. In realizing this fact in the recent period countries have developed their own rental housing policies. However, in the developing countries till today the issue has not won policymakers attention in leading the rental housing sector. The rental sector is a residual to other alternatives of housing supply modalities and government at national or local levels are not allocated enough resources and failed to regulate the sector. Therefore, the rental sector is performing in most circumstances with informal nature and failed to achieve its significant role.

Socioeconomic backgrounds of the sample respondents revealed that attributes such as marital status, household size, age structure, and employment status played a significant role in deciding whether to live in rental houses or not. More than 2/3<sup>rd</sup> of the households were found to be married, multifamily, economically active citizen categories and employed were in permanent or temporal.

Even though the rental sector had less emphasized in the government housing policies and less supported by



government regulatory agencies, its contribution to the housing stocks was raised from 43 to 54 percent. Observed data on rental affordability seems that the rental amount is in an acceptable range, however, this the quality of the residential units is in poor condition and households are forced to compromise rental price with the adequacy of the housing units. Thus, the government should devise alternatives to promote rental sectors through regulation and policy interventions. These include:-

#### **Get rental housing on the larger urban policy agenda**

Among possible measures, getting rental housing on the larger urban policy is the first and most important, prominent initiation to address major issues in the rental sector. Once local organizations have collectively acknowledged the rental situation in their cities, the next step is to open up the issue for public discussion and to gather more detailed information on the inner workings of rental housing, including the larger economic, political and social factors which affect rental supply and demand.

#### **Rent regulation**

Once the government had recognized rental as among the possible strategies to curb housing needs, especially to the low-income household, it can keep housing affordable by regulating the rate at which rents can rise. However, rent regulations had adverse effects when the interests of renters and landlords are not balanced. Renters should be protected from usury rents and have their units maintained at a reasonable level; owners need to be able to evict renters for non-payment or other reasonable causes and able to recover the cost of capital.

#### **Establish an Independent Supervisory Institution**

The rental sector needs an independent rental housing administration institution that can manage and supervised the rental housing, handles grievances within the rental markets. These agencies facilitate the rental transactions among landlords and renters and, hence can escape any intermediaries which have not importance in the rental markets.

#### **Leasing a hybrid rental/ownership model**

The system enabled renters to own their home over time. In such a scheme, a portion of the rent goes toward purchasing a share of the property, gradually building equity in the unit. Although such a scheme might not be able to significantly address the problem of housing provision, it may particularly help to address the housing needs of government and non-government organization workers in 15 to 20 years of time.

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Table 9 Rental Housing Situations

		Cities													
		Adama		Dire Dawa		Harar		Jigjiga		Kebridehar		Semera Logiya		Total	
		N	%	N	%	N	%	N	%	N	%	N	%	N	%
Room Adequacy	Yes	17	8.9	88	30.6	89	49.2	66	42.0	53	39.6	42	28.0	355	32.3
	No	173	91.1	200	69.4	92	50.8	91	58.0	81	60.4	108	72.0	745	67.7
	Total	190	100.0	288	100.0	181	100.0	157	100.0	134	100.0	150	100.0	1100	100.0
Number of Rooms	Single room	172	86.0	268	89.6	160	80.8	128	71.9	70	52.2	133	88.7	931	80.3
	Two room	27	13.5	27	9.0	34	17.2	41	23.0	53	39.6	15	10.0	197	17.0
	Three	1	.5	3	1.0	1	.5	4	2.2	9	6.7	2	1.3	20	1.7
	Four plus	0	.0	1	.3	3	1.5	5	2.8	2	1.5	0	.0	11	.9
	Total	200	100.0	299	100.0	198	100.0	178	100.0	134	100.0	150	100.0	1159	100.0
Potable water	Private	160	99.4	248	83.2	180	91.4	98	56.6	92	68.7	147	98.7	925	83.2
	Common	1	.6	50	16.8	17	8.6	75	43.4	42	31.3	2	1.3	187	16.8
	Others	0	.0	0	.0	0	.0	0	.0	0	.0	0	.0	0	.0
	Total	161	100.0	298	100.0	197	100.0	173	100.0	134	100.0	149	100.0	1112	100.0
Kitchen service	Private	5	3.1	31	10.4	17	8.6	22	12.4	36	37.9	53	45.7	164	15.7
	Common	156	96.9	143	47.8	146	74.1	147	82.6	59	62.1	63	54.3	714	68.3
	Others	0	.0	125	41.8	34	17.3	9	5.1	0	.0	0	.0	168	16.1
	Total	161	100.0	299	100.0	197	100.0	178	100.0	95	100.0	116	100.0	1046	100.0
Electricity	Private	2	1.2	41	13.7	35	17.8	10	5.9	57	59.4	57	39.3	202	18.9
	Common	159	98.8	256	85.6	158	80.2	146	86.4	39	40.6	88	60.7	846	79.3
	Others	0	.0	2	.7	4	2.0	13	7.7	0	.0	0	.0	19	1.8
	Total	161	100.0	299	100.0	197	100.0	169	100.0	96	100.0	145	100.0	1067	100.0
Toilet	Private	1	.6	23	7.7	8	4.1	9	5.1	46	34.3	42	31.3	129	11.7
	Common	160	99.4	272	91.0	187	94.9	156	89.1	88	65.7	92	68.7	955	86.8
	Others	0	.0	4	1.3	2	1.0	10	5.7	0	.0	0	.0	16	1.5
	Total	161	100.0	299	100.0	197	100.0	175	100.0	134	100.0	134	100.0	1100	100.0

Source: Compiled by Author, 2018

<sup>2</sup> Opinions Expressed Here Belong to the Author and Do Not Necessarily Reflect FDRE Policy Study and Research Center