URBAN LANDMARK CONFERENCE.

OPPORTUNITIES AND CHALLENGES OF FALLING LAND MARKETS AND SUSTAINABLE LIVELIHOODS OF THE URBAN POOR IN AFRICAN CITIES.

BYTES CONFERENCE CENTRE,MIDRAND,GAUTENG, 28TH-29TH OCTOBER,2009

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1.Introduction

It is generally acknowledged by government officials, international experts and local practitioners that the difficulty of securing reasonably priced land is the greatest single constraint to the private sector's ability to provide well-located urban housing opportunities for low and moderate income families in developing countries. This has resulted in the private sector's tendency to construct higher income housing in such well-located and well-serviced areas while forcing housing for low and moderate income families to the peripheries of urban areas where they may incur substantial costs, both in time and money, in commuting to employment opportunities in the urban center and where infrastructure and urban services are often lacking or deficient(Acioly Jr,2009).

Although land values in central cities and well-serviced residential areas for good reason tend to be more expensive than land at the urban periphery, a well-functioning land market can help to keep costs competitive. Conversely, where such land markets do not function freely, or where there are artificial distortions to the market, land values in well-located urban areas may escalate to the point where housing for low and moderate income families simply cannot be built at a profit by the private sector without subsidies. Either way therefore, poorer people looking for land to live and trade on find it difficult to compete in the market.

Would the situation be any better in volatile situations of falling prices? Property sector is globally experiencing down times. Although the global recession appears to be in sight, the land market is likely to take sometime to recover, as there is often a lag of two or so years for property market to respond to an economic cycle. Arguably, when property prices dip, the markets open up for a time. Thus lower land costs in down-times should present a particularly useful opportunity to secure better land for housing and small businesses. Despite this, however, urban players often appear indifferent and non-proactive with regard to taking advantage of lower land costs, where appropriate, to secure better and stronger access for poor people in urban land markets. What challenges do they face that make it not possible for them to take this advantage? Or is it lack of political and or moral commitment on the part of players in the urban land market?

This paper revisits the concepts of ***sustainable livelihoods*** and ***distributive justice*** as the paradignms or conceptual basis against which to examine the need for the players in the urban land market to take advantage of any available opportunity that could facilitate the poorer urban population to access land for their livelihoods. The review will be guided by but not limited to the following questions:

- Can access to land market contribute to poverty reduction and the integration of the people into the city?
- What opportunities does falling land market prices present to the government, the private sector and the communities trying to establish themselves in urban areas?
- Why do the players in urban land market consciously or otherwise ignore this opportunity to secure access to land for use by the urban poor?

2.Sustainable livelihoods and distributive justice*******

2.1. Sustainable livelihoods and poverty reduction

The value of land for the urban poor has to be seen within the context of sustainable livelihoods. As defined by Diana Carney(1998), livelihood comprises the capabilities, assets(both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base. Sustainable livelihood outcomes should include increased incomes, increased well-being, reduced vulnerability, improved food security and more sustainable use of natural resource base.

Invariably, land is an important asset that when combined with individual or collective capabilities can play an important role in the realization of sustainable livelihoods for the urban poor.First, land is a natural asset that provides space for many activities for the urban poor including residential accommodation, rental income, business space for home-based enterprises, and urban agriculture. Second, access to land improves the quality of life of the urban poor through access to public provision of infrastructure and services(potable water, sanitation, access roads, power, etc).Third, land is a social asset that provides platform for social networking by the urban poor(community organizations, sports, etc).

The value of land to the urban poor does not necessarily depend on ownership in the context of “possession and right of disposal”. What is most important is the security of tenure, whether the possession is acquired through ownership, or occupation tenancy(short renting/leasing). The granting of secure tenure is governed by a set of rules that guarantees legal protection from forced eviction or harassment on land or residence, except through due legal process(,COHRE,1998;UN-HABITAT/OHCHR,2002). The state governs land in the public interest, and so needs to provide security of tenure for all urban residents to have a stake in the urban economy.Under international treaties where the right to property is protected, and in countries where it is a fundamental right, it has never been doubted that the right to property must yield to the greatest social good of the community.

2.2. Land inequality and distributive justice

If land is so important for livelihoods in an urban economy, why is there such inequality in land distribution to the disadvantage of the poor. For instance,in today’s world, one in three urban residents lives in slum conditions.As reported at the UN-Habitat tripartite conference(Acioly Jr,2009), in 2006 nearly one billion people in cities in Latin America,Asia,Africa and even Europe and North America could find housing only in slum settlements. For Africa in particular,urban growth is synonymous with informal urban development.The growth rate of slums in Sub-Saharan Africa is 4.53%, compared to 2.20% in Southern Asia.The growth of slums is a manifestation of failure of land reforms to achieve equitable access to land for the urban poor.

The need for equity in resource distribution is anchored in the principles of distributive justice.the universal concern for ***distributive justice*** has its origins in the philosophical principles of utilitarianism and libertarianism***(***Rawls,1971; Sen, 1997; Dworkin, 2000). The principle of distributive justice states that human beings in any society have the same initial expectations of *basic goods*, the bundle of material goods necessary to sustain a decent life. Thus all social primary goods such as liberty and opportunity, income and wealth, and the basis of self-respect, are to be distributed equally. However, inequalities arising out of choices and ambition can be *just and fair(*Rawls,1971).That is, economic inequalities are acceptable only to the extent that they are based on individual initiative, rather than circumstances beyond one's control like heritage, physical handicap and environmental adversities. There is thus a case for policy and institutional intervention to correct inequalities arising out of circumstances beyond one's control such as physical disability or poor environment, but leaving individual inequalities deriving from choice and the market competition intact.

Therefore, distributive justice can allow one person with better endowments and skills to have better outcomes than another, if compensation for basic goods has already taken place(Sen, 1997; Dworkin, 2000). It is a hypothesis of this paper that the people living in informal settlements/slums in Africa have not been provided with bundle of material goods for sustainable livelihoods, principal among them, being land. As pointed out earlier, land is an important asset in the sustainable livelihood strategies of the urban poor.Poorer people looking for land to live and trade on find it difficult to compete in the market, largely for three reasons.First,on account of lack of affordability due to high prices; secondly on account of lack of information on land availability(location, price, suitability); and third,lack of accountability by the state and society.But the state governs land in the public interest and so needs to secure opportunities for all urban residents to have a stake in the urban economy in the context of distributive justice.Indeed,according to the Commission on Human Rights,for instance, a claim or demand can be made upon society for the provision of or access to housing resources should a person be homeless,inadequately housed or generally incapable of acquiring a bundle of entitlements implicitly linked with housing rights(UN-HABITAT/OHCHR,2002:17).

3. Falling land prices and the poor in cities.

For the urban poor there is probably no more fundamental problem than their inability to access decent,secure land for even the most minimum housing needs.Access to land is an insperate ingradient in a poor household's ability to survive,earn,thrive and lift itself out of poverty.Aside from being a basis for shelter and access to services,secure land rights can act as safety net in times of hardship and provide financial security.Secure rights to land also encourage people to invest in improved housing and the land itself.

However, in many places and many ways, the urban poor continue to be treated like blocks of colour on a development map,to be lifted up here and posted down there; not like human beings with real needs,real families,real aspirations and real communities.If cities can find ways for poor communities to be part of the planning which affects their lives and settlements,it is possible for cities to grow in ways that do not cause displacement,misery and impoverishment for such large portions of the urban population.Can the current falling land prices provide access to land for the urban poor in absence of affirmative action or distributive justice to secure sustainable livelihoods for all urban residents?.Are the falling land prices sufficient to increase affordability even by the bottom 50% of the urban population in cities? The following three cases of Kenya,South Africa and India are used to illustrate the myths and realities,and opportunities and challenges of falling land prices in the midst of poorer urban population.

3.1. Kenya:

Property investors have always been drawn to Kenya as haven for international tourists. The most popular areas of real estate investment in Kenya remain the game reserves and resorts all along the Indian Ocean coast, holiday home and retirement property developments in the game reserves and on the shore (African Business, 2008). Given that the cost of living in Kenya is relatively low compared to many developed countries, more holiday and retirement home hunters are finding that they can achieve a good standard of living in an incredibly beautiful country and buy up property for relatively very low prices. Overseas property investors are developing or buying into developments of properties for these types of buyers increasingly.

In terms of urban development, only 0.7% of Kenya's total land area of 582,000 square kilometres is urban land, accommodating 22% of the 38million national population. The capital city of Nairobi accounts for 55% of national GDP and 40% of urban population. With a population of 3million, about 55% of city residents live in unplanned settlements with minimum or no basic services such as water, sewerage and access roads. While total residential land accounts for 28.6% of city's land area of 69,400 hectares, the informal settlements that accommodate more than half of the population only account for 3.2% of city area. This population forms part of the 72% of Nairobi residents who are categorized as urban poor, earning less than Ksh25,000($350)per month. Only 4% of Nairobi's population is categorized as high income, earning more Ksh140,000($2,000),while the remaining 24% fall between high and low income(KNBS,2008).

While the financial crisis gripping Western markets has its origin in the housing market's sub-prime debt, and is being keenly felt by homeowners facing falling house values,in Kenya a housing boom looks set to continue.Kenya's capital Nairobi,has the country's biggest share of real estate developments.It has been boom time for developers since 2003 in the city's exclusive neighbourhoods of Karen,Lavington,Kileleshwa,Kitisuru,Runda,Thigiri Ridge and Ridgeways with town houses as well as multi-storey blocks of quality apartments, being built as fast as they are being occupied. For this market, the entry of commercial banks(Barclays, Standard Chartered, Kenya Commercial Bank, etc) in to the mortgage market coupled with a decrease in government borrowing from the private sector pushed down interest rate levels to lows of between 12% and 18%(now averaging 13%) boosting the demand for housing, creating a boom for the developers and thousands of jobs in the construction industry. Further, the implementation of Sectional Properties Act of 1987,introduced subleases as a means of title ownership and has greatly changed people's mindset on property ownership, and this gave boost to the development of apartment blocks in Lavington, Kileleshwa, Westlands and Parklands.Prices average at US $ 420,000 for Nairobi's four bedroom houses and US$210,000 for apartments. Rental yields for apartments is 9.58%, while houses in the same district average 5.58% per annum(Global Property Guide,2008).There is no rent control at this end of market, and there is no restriction on ownership of the property by foreigners.

However,a recent report by HassConsult, a firm of real estate agents in Nairobi, indicated that prices of upper and middle income houses in Nairobi are falling after consistently rising in the last two years(The Daily Nation,October 2009).The prices of residential property were reported to reduce by 1.4% and 2.2% in the second and third quarter of 2009 respectively, compared to 2007 and 2008, when every quarter saw a 4% or more increase in property prices. Between 2007 and 2008 the overall prices went up by 30%.

In recent months, despite the need for housing, the financial strains on middle and upper income buyers have been manifested in bringing a slow down in the market, where so many new residential developments have come up. A substantial part of this is probably accounted for by reduction in remittances from Kenyans in diaspora who were cash buyers due to global financial crisis. For bargain hunters it is good time to buy though it might not be good time for borrowing to buy if the trend continues.This, however, gives a small picture of overall trends in the property market as it only included residential neighbourhoods in the upmarket suburbs that could not be developed further.It needs to be seen if there will be trickle down effect in the rest of sub-markets in Nairobi.

In the lower end of the market there is yet no evidence in Nairobi of melt down in property prices. The biggest reason is that there is scarcity of housing and developable land, particularly for the low income sectors of the population. The prices are sufficiently high to the extent that even a drop by 30% will not facilitate upward mobility by the urban poor.They therefore remain in the squalid neighbourhoods of Kibera, Mathare and Korogocho slums, unless the major stakeholders. (particularly the private sector) venture into low income housing provision. However,for this to take place, there will be need for incentives, including making land in the peri-phery of Nairobi(25km radius) developable through trunk infrastructure provision.This is a role that the state and local authorities should initiate as part of their social contract(distributive justice)with the citizens.In the case of unplanned settlements, there will be need for the government(central and local) to borrow from the private sector through infrastructure bonds so to carry out settlement upgrading in order to improve the livelihoods of slum dwellers. The civil society will be expected to use its grassroots experience to mobilize the slum dwellers to participate in the settlement upgrading through their contributions as appropriate.

Poor communities can be much more resourceful than government or developers when it comes to finding land for housing. When well organized communities have access to cheap, flexible loans they can search for and negotiate to buy suitable land on their own, and there is a lot that can be done to support these efforts.The emphasis here is for affirmative action to improve the lot of the urban poor as falling prices on their own will not be sufficient to raise substantially affordability by the urban poor in Nairobi.

3.2.South Africa

In comparison to Kenya where urban population is less than 25%, in South Africa the urban population in metro areas, large towns and small towns account for 54% of the total national population of 40,584,000(Statistics South Africa,2003).However, 62% of this population live in the 10 metro cities with populations above 500,000 each. Within the urban population, it is estimated that there are 2.1 million households(10.5 million people) who are landless. They fall within the category of poor households earning less than R3500 per month, which is the limit for housing subsidy eligibility. This is notwithstanding the 2.3 million new low-income property owners that have received serviced sites/houses for individual ownership since 1990.

As I understand it, South African property prices remain firmly in negative territory, and is expected to remain weak throughout 2009, before stabilizing in early 2010. Based on house property index by Absa Bank, for instance, average South African property prices(given the value of the median residential properties financed at R542000)would fall by 10% this year. However, despite the declining interest rates, a rising number of insolvencies and liquidations, the spectre of slow economic growth and poor job creation prospects, few households are in the position to take advantage of improved affordability of housing.

If ,however, as the article on a Holiday Letting website in the UK points out, an apartment in an affluent part of Johannesburg might cost US370,000, those willing to widen their search field are sure to find properties at a lower price .According to the article, just half an hour’s drive could reward buyers with as much as half the purchase price of properties found in central Johannesburg. If this is so, then the often stated hope to eradicate townships by 2014, could not have a better chance than in the current state of falling land values. However, given that physical development plans which decide what is going to happen where in a city and policies that determine how land is to be used are highly political, it is the political goodwill that will decide the fate and speed with which advantage can be taken of falling land prices. The technical proposals for infrastructure and zoning regulations are not cast in stone, and every aspect of the proposals should be seen to be negotiable if the poor have to benefit.

3.3.Falling house prices in India.

In Asia between 30% and 50% of urban residents lack any kind of legal tenure document which enables them to occupy that land.In cities like Mumbai,Karachi,Manila and Dhaka more people live in slums without any tenure security than live in formally accessed land.At the same time,opportunities for the poor to settle on unused public land and build informal settlements are declining, as more and more left over pieces of land in Asian cities get occupied.This is despite the reported falling land prices that should have benefitted the urban poor.

According to Associated Chambers of Commerce and Industry in India, house prices in big Indian cities continued to fall during the first quarter of 2009, having begun to slide in 2008.The prices had dropped in QI 2009 ,up from reported price falls of 78% in Q4 2008. Interest rates at banks and financial institutions range from 9 to 12% for floating rate mortgages, and 9.25% to 13.25% for fixed rate mortgages with loan to value(LTV) of &5% to 85%. But most buyers do not take out mortgage loans, such that housing loans to GDP is less than 5% in India.

Developers face funding shortages due to the stock market crash in 2008 and fleeing of foreign investors as a result of the US recession and global financial crisis. This has led to many projects being delayed or halted. The economic growth has slowed from being one of the fastest growing economies at 8.9% in 2007, and 7.3% in 2008 to a forecast of 5.4% in 2009. Unemployment is expected to worsen particularly in the IT, finance and SME industries, and the economy may remain depressed for the next 4 years with the result that the house prices could decline by at least 30%.

The most negative indicator for India's market is that residential yields are low at 2.9% to 4.6%, largely because of problematic socialist laws protecting tenants. Cities with rent controls generate lower yields. However, residential properties still remain less affordable because of low wages relative to house prices. In Mumbai, for instance, residential properties cost 100 times the average annual income. Therefore the buyers are unmoved even with the falling prices, and demand remains depressed, and the poor continue to die in squalor. Again without deliberate efforts to actively assist the poor the falling prices would remain a pipe dream as a solution to improve the lot of urban poor.

4.Challenges

House prices will keep falling in many cities because those prices are still dangerously high compared to incomes. For instance, in Nairobi high income borrowers earning US$2000 per month(who are only 4% of the urban population) would purchase an apartment worth US$210,000 which is 9 times annual income, or a house for US$420,000 which is 18 times annual income instead of conventional three times. The monthly mortgage repayment for this apartment @13% interest for 20 years amounts to US$2,491.The same apartment would be leased for an inclusive rent US$1,000 per month or US$ 12,000 per annum. This is two and a half times the rental income. The borrower will still pay for maintenance and repairs, mortgage insurance, property rates as well as fire insurance, all adding up to additional 30%.Thus it costs in Nairobi about three times as much to borrow to purchase the house than to rent or borrow the house. Renters win while borrowers lose in circumstances where prices though falling are high relative to incomes. Demand for properties will remain subdued and recovery may therefore take much longer, unless economy improves to enhance people's incomes. In the meantime, most of affordable housing lies beyond the city boundaries(25-30km distances),where prices may drop as to 50%.These include places like Athi River,Kitengela,Ngong,Juja,Kikuyu urban centres but which take several commuter hours due to poor road network with the city of Nairobi.

In principle, falling prices mean lower property taxes, and ability to pay it all off instead being indebted. On the other hand, for the borrower, the mortgage will be larger than the value of the house, and therefore refinancing the house will be difficult as sale cannot be without a loss. It is certainly better to pay a low price with high interest rate than a high price with a low interest rate, even if mortgage repayments is the same either way. This is because in the long run interest rates have no where to go but up, while prices have no where to go but down. The way to win the game is to have cash on hand to buy outright at a low price when others cannot borrow very much because of high interest rates.

The problem with recovery in property downturn is that there will be a severe shortage of property as developers cut back drastically on buying land and developing new homes. Unless developers revert to land buying, housing supply will remain below demand thus supporting prices. With people reluctant to commit themselves and such uncertainty over financial insecurity, people will not take the risk of putting their property up for sale until they know they will have a chance of selling it. Thus the downturn will benefit those vendors and purchasers who have cash.If house prices go up, and the mortgage providers require large deposits, then a number of people will be outpriced in the property market.

5.Opportunities for interventions

African Business Publication in July,2009 noted that Africa is the site of choice for construction companies from around the world as new projects from airports to large-scale affordable housing proliferate, despite the economic crunch. Some construction companies are even suggesting that the global economic crisis will encourage them to set up their property acquisitions in Africa because lower valuations offer good long-term value.

Property prices have tumbled in many Gulf States over the past year and so a range of investors from the region are looking to Africa and even further afield for alternative investment targets. It is reported, for instance, that Dubai real estate firm, Dayaar has identified markets in Africa and the Middle East where it will concentrate its resources.

Further more,any slowdown in investment in Africa could be partly mitigated by a wave of new financial support from the World Bank. This includes the new Infrastructure Recovery Asset(INRA)fund of US$45billion and the Infrastructure Crisis Facility(ICF) fund of US$10billion, both to be managed by the International Finance Corporation(IFC),over the next three years to promote infrastructure in developing countries.

Apart from power,water and transport projects, the money will be used to finance low cost housing, which is a growing focus in aid and investment funds, and other construction schemes in Africa.This is all in support of the sentiments by Robert Zoellick,president of the World Bank who commented :"As developing countries are facing the trials of the global economic crisis, it is vitally important that economic stimulus packages in the developed world are accompanied by support to thosethat cannot afford multibillion bail-outs".

5.Conclusion

There are few urban issues that are more complex or conflict-ridden than land and how it is used. As cities grow in size, population and prosperity, the demand for land by every sector of society brings never before imagined pressures on scarce urban land and increasing its commercial value. The best way out this crisis is to support a broad range of approaches in different contexts, styles with many groups of urban poor trying out different strategies to produce solutions that work. Policy makers should at the same time recognize that providing land to the poor is ultimately a political issue driven in many respects by concerns for distributive justice and sustainable livelihoods. Falling land prices, if ever they occur, should be an opportunity that the political elite and the policy makersl can utilize to further the mission of urban poverty alleviation.

A number of strategies will be necessary to take advantage of falling land prices or otherwise in an effort to improve livelihoods of the poorer urban population.

i. **Planning more efficiently**
One way to bring down costs in low-income housing projects is to minimize the amount of land used for each unit through more efficient planning.Good planning can reduce per-unit land costs, allow for more efficient and more affordable basic services, and create better living environments by ensuring that poorer communities and other stakeholders are centrally involved in every stage of the process.

ii. Improving basic services and regularizing low income housing.

For cities with large unserviced slum and squatter communities such as Nairobi, slum upgrading can directly improve the lives of the urban poor by providing water, sanitation, storm water drainage, roads/foot paths and secure tenure. Such programmes can have significant benefits for residents' health and social welfare. They can also have important economic effects for the residents. Monitoring data from East Asia, for instance, indicate that each dollar of public investment in physical improvements in such areas can generate seven dollars in private investment.

iii. **Cross-subsidy schemes**

Some governments,particularly in East Asia have policies which require private sector developers to reserve part of their market-rate housing projects for the low-income, by setting aside a portion of land or percentage of housing units in a scheme for the low income.

iv. **Improving land information system**

If land records in a city are unclear, it leaves room for land use tom be manipulated in different ways by powerful interests to the disadvantage of the poor.Creation of a more readily available property information system that would be accessible by the general public is a necessary to increasing access to urban land.

v. **Targeting credit programmes .**

Carefully designed micro-credit or other targeted credit programs can help address market failures that otherwise exclude the poor from access to credit, thus supporting entrepreneurship and economic self-help among the poor. Such programmes will have the best overall effect when designed to avoid reliance on large, unsustainable subsidies or the creation of disincentives for commercial banks to serve the market.Many examples exist where such credit facilities are managed either by micro-credit financial institutions and other non-banking institutions such as savings and credit societies.

vi. **Managing migration.**

While it is not possible to prevent new migrants from entering the city,management must integrate them into the formal system as rapidly and smoothly as possible through

- Developing realistic land-use plans supported by infrastructure development,especially in rapidly growing peri-urban areas to lower the costs of planned sub-divisions.
- Avoid the requirements for high minimum standards that neither the poor nor the responsible local government can afford
- Avoid extravagant subsidies and giving away land, to the extent that beneficiaries pay for on-site infrastructure
- Reform land administration and property registration to facilitate a functioning property market

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