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Housing for the Lower Income Groups, - economic aspects

by

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The views and opinions expressed in this paper are those of the author and do not necessarily represent those of the HRDU or of UNEP where the author is employed.

## Introduction

One could approach the subject of housing from the macro level i.e. at the national level, dealing with some of the socio-economic and political issues moving downwards to the micro level, i.e. the problems facing the individual family in terms of housing. In fact many professionals tend to take up this line of thought, because they have come to the conclusion that the housing problems, in both rich and poor countries, is neither technical nor economic, but political. This conclusion then leads them to discuss which political system would be capable of "solving" the housing problems for those most in need.

To bring such a political system about may in turn require a revolution or at best an evolution which is bound to affect the whole array of values and norms. This could take a very long time indeed and many families would go without proper shelter in the meantime.

I have chosen to approach the subject of housing for the lower income groups from the "bottom up" instead of from the "top down". This is, in my view, a more feasible way to get started and make some tangible progress for those most in need of better housing. At the same time it is the approach most appropriate for the occasion, namely representing the style or philosophy which the Housing Research and Development Unit has adhered to during its 10 years of existence.

## Economic aspects of housing

We may usefully divide the economic aspects of housing into three groups. COST, VALUE, and FINANCE. We shall deal with them in that order and by examining the relationship between them focus on some key problems for the lower income groups and hopefully come up with some guidelines for change.

The crux of the matter as stated very well in the announcement of this seminar is clear, namely that given the present cost of housing (a function of the required standards) the prevailing income distribution and existing finance mechanisms, the great

majority of the urban population just cannot afford a house. In short, the issue is one of "affordability". If cost and income were the only two components of affordability we would indeed be up against a very difficult situation, because to increase incomes is as difficult as to reduce prices. Reducing standards is another issue, which will be dealt with in other papers at this seminar.

To reduce prices, however, is not the same as to reduce cost. The conversion of capital inputs to labour inputs and hired labour to self-help are some of the obvious cost reduction techniques. In addition the timing can be as important as the level of costs, because the ability to meet the costs varies over time. We shall return to this point under the heading of finance.

Fortunately there are other components of affordability, which gives us extra possibilities. One such component is value.

The value of housing is not entirely reflected in the price at which houses change hands at any given time (and can be quite different than its original constructing cost) neither is the rent people pay always reflecting value, though in a free market without subsidies the rent or price of a dwelling does reflect to some extent the relative value individuals put on housing. But the value of housing, especially for the lower income groups, is also reflected in the improved social conditions, which in terms of health, dignity, attitudes and stability have considerable value for society as a whole. It is for these reasons that the public sector feels obliged to subsidise housing for the lower income groups. Unfortunately subsidies are often ill administered and therefore end up in the wrong pockets. This misallocation is difficult to avoid unless the present procedures are changed and subsidies given to people rather than to houses.