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HOUSING RESEARCH AND
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FINANCING OF HOUSING IN KENYA.

-some major issues.

Niels O. Jorgensen.

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The purpose of this paper is to outline briefly some of the characteristic problems of capital formation in the housing sector of the Kenya economy. By suggesting what is involved in these problems, it is intended not only to create a basis for decision - and policy-making, but, by using facts and figures from the present situation in Kenya, also to suggest what the policy should be. As this is obviously an ambitious venture, the actual mobilization of capital for implementation of this policy will be described in detail in papers to follow.

The productivity of investment in housing.

It is taken for granted that economic growth at the rate of 6% per annum as set forth in the "Development Plan 1966-70 " is desired and that funds used for housing should not only support this goal but be an instrument, - perhaps the most important - in transforming economic growth into tangible improvements for the people. The latter point has wide public support, but when it comes to the allocation of public funds, it is often argued that investment in housing is unproductive and therefore does not add to economic growth.

Though research in this field has not as yet brought out quantified relationships between the amount of money invested in housing and the productivity of the labour force, it is clear that there are definite positive correlations between health and social stability on the one hand and the quality of housing on the other. Health and social stability are unquestionably two of the major contributors to increased productivity. Two other points must be made in this respect. First, the effect on productivity is much higher at the lower end of income scales than at the higher i.e. for low-cost housing than for high-cost. Secondly, the higher the labour content of any particular production the bigger, consequently, the effect of improved housing on productivity.

Both of these conditions are prevalent in Kenya today to such an extent that there is a stoong case for channeling funds into housing, especially low-cost housing. * The question is how much?

The "Development Plan" sets the need for housing at a rough 7,600 units in the urban areas of Kenya (the rural need is estimated as three times as high, but may be closer to five times). The figure for urban housing is, if anything, under-stating the real need, because in Nairobi alone the need is estimated at 5000 units per year up to 1970. These figures for 'need' need to be investigated further especially in regard to income distribution as that will have a major impact on the type and thereby the cost of houses, which are actually needed.

In economic terms "need" is not as meaningful as "demand". But to show that there is also a demand for housing suffice it to say that as long as a house costing Shs.15,000/- to build today brings in over Sh,5,000/- in rent net i.e. 30% +, then there is clearly a disequilibrium, because it means that a safe investment, which even has capital appreciation possibilities is payed off in less that three years, which is far better than similar safe investments, for which one can borrow money in the open market at 10%. Unfortunately, however, those most in need of low-cost housing cannot borrow at this rate in the open market, - if at all. It is therefore that public funds should be channeled into this kind of housing with preference over any other type of housing. In nominal terms the figure is arrived at by multiplying the number of units needed by Shs.8,000/- as this is calculated to be the cost of a reasonable dwelling including services.

It should be mentioned also that the construction industry itself has a high labour content and would therefore benefit particularly just like the economy as a whole by increased efficiency of labour.

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* For the purpose of this paper low-cost means Shs.3,000/- to Shs.10,000/-.

To achieve this, especially within construction industry, the piece-work and incentive schemes are as obvious as the benefits of economies of scale.

Labour and other capacity problems:

Having argued for increased efficiency through better housing and pointed especially to the construction industry, which has a high labour ratio it is only fair to admit that the present situation in Kenya is one with full if not over-utilization of capacity with a drastic drop in efficiency as a result. There is no need here to quote the clear indications of this, which are apparent in the sharp price increases for practically all items used in the industry, with labour in the lead.

This situation is notdifficult to explain. There has been a definite slump in the construction industry since 1960 due to uncertainties about the future after independence and the simultaneous exodus of Asians and Europeans. This lasted up to 1965, when a definite boom started. It is a natural phenomenon that it takes time for a capital-heavy industry to adjust after a period of depression, but in this case it was a labour heavy industry; however, the exodus had bit the industry directly as 98% of the construction workers were Asians. Due to the slump no new craftsmen were trained and the capital-heavy supply industries (metal-works, timber industry, transportation equipment, cement and ballast) are still adjusting.

A separate study of these capacity problems is presently being carried out at the Institute of Development Studies at University College Nairobi, and with the results of that study available it will be safer to suggest solutions. For the time being a few general solutions seem clearly indicated:

The unemployment rate amongst unskilled workers especially in the urban areas is high, whereas skilled and semi-skilled manpower is in more or less short supply, - the shorter the higher skilled. In the construction industry even semi-skilled are in demand , it seems, though this may very likely turn out to be due to monopolizing within the industry. One conclusion, however, must be for a simplification of design and components on the one hand and large estate-type building programmes on the other, where a few skilled persons can supervise many unskilled. If this means that local authorities must act as contractors, then be it so, but not without having advertised for tenders.

Only public bodies can eliminate the problem of available land, but this does not seem to be a pressing problem as much as that of providing building materials. As far as this is not a manpower problem capital formation will, over time, help solve that problem. The Government can assist in this as is explained in relation to housing in a later section of the paper.

The effect on the Balance of Payments of residential construction:

The argument that investments in housing adversely affects the balance of payments is true in the sense that relative to the quality of houses it has a large c import content and does not create any new exports, nor does it substitute other imports. This is again a short sighted argument. To the extent that housing makes a smaller contribution to increased productivity (as pointed out on the previous page) it makes the country in question more competitive vis-a-vis all other countries and thereby the balance of payments is influenced favourably. When social considerations are taken into accounts it seems trivial to refrain from investing in housing for foreign exchange reasons, - especially when holdings of foreign currency is sufficient. In Kenya, furthermore, the essential building materials are readily available and for low-cost housing the import content is at about 10%. This does not imply that standardization on local products could not be carried even further, - and should. In respect to a local product such as cement, an increase in the local construction out-put would add to the efficiency in the cement industry, which is also exporting, but not to full capacity as yet, consequently making it able to increase exports.