

Factors Affecting the Real Estate Market: the case of Addis Ababa City

**By: Kiros Aquubamicheal
June 2009**

Advisor: S.Ulangathan, Ph.D.



**A PROJECT PAPER
SUBMITTED TO THE SCHOOL OF GRADUATE
STUDIES
OF
ADDIS ABABA UNIVERSITY
IN PARTIAL FULFILLMENTS OF THE REQUIREMENTS
FOR THE DEGREE OF MASTER OF SCIENCE
IN
ACCOUNTING AND FINANCE**

ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
Faculty of Business & Economics
Department of Accounting & Finance

**FACTORS AFFECTING THE REAL ESTATE MARKET:
THE CASE OF ADDIS ABABA CITY**

By Kiros Aqubamicheal Kifle
June 2009

Approved by board of examiners

S.Ulangathan, Ph.D

Advisor Signature

Examiner

Signature

Examiner

Signature

Statement of Certification

This is to certify that Kiros A/Micheal has carried out his project work on the topic *“Factors affecting the real estate market: the case of Addis Ababa city”* under my supervision. In my opinion, this work qualifies for submission in partial fulfillment of the requirements for the award of Degree of Masters of Science in Accounting and Finance.

Signature _____
S.Ulangathan, Ph.D.
Project Advisor

Statement of Declaration

I declare that this project work is my original work. It has not been submitted for any Degree/Diploma in any University. I have undertaken it independently with the advice and suggestions of my advisor for the project, S.Ulangathan, Ph.D. In carrying out of the project work I have different sources and materials, which have been appropriately acknowledged.

Signature _____
Kiros A/Micheal

ACKNOWLEDGEMENTS

I am grateful to my advisor, S.Ulangathan, Ph.D who has been helping me through out my research and without whom the research could not have been materialized. Admittedly, his dedicated professional assistance has helped me to complete the work with in the specified time. My deepest gratitude goes to him for his genuine and polite cooperation and assistance.

I also would like to appreciate all those who were willing to give me their time and rich perspective in a genuine data collection during the survey. I would like to thank Ato Bulti and Ato Nebiyu and everyone involved in providing support in each of the sampled companies.

I would like to thank heartily all my colleagues who have been helping me professionally and morally through out my study.

Statement of Certification.....	i
Statement of Declaration.....	ii
ACKNOWLEDGEMENTS.....	iii
Table of Contents.....	iv
List of Tables.....	v
Abstract.....	vi
CHAPTER ONE - RESEARCH FOUNDATIONS AND METHODOLOGY.....	1
1.1. BACKGROUND OF THE STUDY.....	1
1.2. STATEMENT OF THE PROBLEM.....	5
1.3. OBJECTIVES OF THE STUDY.....	8
1.4. SIGNIFICANCE OF THE STUDY.....	9
1.5. SCOPE AND LIMITATIONS OF THE STUDY.....	9
1.6. METHODOLOGY.....	10
RESEARCH DESIGN.....	10
CHAPTER TWO -LITARATURE REVIEW.....	13
2.1 REAL ESTATE.....	13
_2.1.1 Meaning of real estate.....	13
_2.1.2. Basic Types of Real Estate.....	14
2.2. REAL ESTATE MARKET CONCEPTS.....	15
_2.2.1. Real estate space markets.....	16
_2.2.2. Real estate asset markets.....	17
2.3. REAL ESTATE AS A BUSINESS SECTOR.....	19
2.4. THE REAL ESTATE CYCLE.....	20
2.5. REAL ESTATE (HOUSING) FINANCE CONCEPTS.....	23
2.5.1. Housing Loans.....	23
2.5.2. Mortgages in the Real Estate market.....	26
2.5.3. Mortgage loan types.....	27
2.5.4. What is an ARM?.....	28
2.5.5. Subprime mortgage.....	29
_2.6. Overview of the Development of the Real Estate Sector in Ethiopia.....	30
CHAPTER 3.....	35
RESULT ANALYSIS AND DISCUSSION.....	35
3.1. GENERAL PROFILE OF SAMPLED RESPONDENTS.....	35
3.1.1. Types of Real Estate Operations.....	36
3.1.2. Customer Focus based on income level.....	38
3.2. AFFORDABILITY OF REAL ESTATE PROPERTIES BY INCOME LEVELS.....	39
3.3. FINANCING ARRANGEMENTS BY BUILDERS WITH THEIR BUYERS.....	45
3.4. ANALYSING THE HOUSING FINANCE IN THE REAL ESTATE ASSET MARKET.....	47
3.5. FACTORS AFFECTING THE MARKET’S TRANSACTIONS AND OPERATIONS.....	50

3.5.2. Delays in Transferring Title Deeds and Their Reasons	52
3.5.3. Maximum Capacity Utilization Constraints to Developers	54
3.5.4. Cash and Other Sales Transactions	56
3.5.5. Market system and brokerage	58
3.6. IMPACT OF ECONOMIC CRISIS, INFLATION AND THE FOREIGN EXCHANGE ON THE SECTOR.....	61
3.7. CURRENT PRICE DETERMINANTS OF PROPERTIES OF SAMPLED Co.'s	65
3.8. SECONDARY DATA ANALYSIS ON INVESTMENT TRENDS IN THE SECTOR	68
CHAPTER FOUR	73
CONCLUSIONS AND RECOMMENDATIONS	73
4.1. CONCLUSIONS.....	73
4.2. RECOMMENDATIONS.....	79
References	82
Appendix	84

List of Tables

Table 1: Data on real estate investment projects status in A.A from 1984-2001 E.C (Some years omitted).....	33
Table 2 General Profile of Sampled Respondents	35
Table 3 Customer Focus	38
Table 4 Affordability of real estate properties by different income levels	39
Table 5 Urban incomes per house hold (1995/1996).....	43
Table 6 Financing Arrangements and alternatives used	45
Table 7 Sales Pattern.....	50
Table 8 assessment of delays in transferring title as per contracts	52
Table 9 Reasons for Delays	53
Table 10 Maximum production capacity utilization assessment	55
Table 11 Ways of marketing products in the real estate market.....	58
Table 12Reasons for extended negotiations in real estate transactions	60
Table 13 sufficiency of capable real estate brokers	61
Table 14 Impact of Crisis on settlements by existing Diaspora customers	63
Table 15 Main Pricing Factors currently on properties of companies.....	65
Table 16Real estate investment status (aggregate figures) in Addis Ababa in 3-phases..	68

Abstract

This Research project entitled with “Factors affecting the real estate market: The case of Addis Ababa City”; identify and describes the main factors affecting the real estate market in Addis Ababa city. The study identified existing operations of the real estate companies in the market and with a focus on currently existing situations in most aspect of the market; major problems are addressed.

Both primary data and secondary data are obtained and used. The questionnaire and interview method of data collection and qualitative research method were used.

The study finding indicates that the real estate market is constrained by different factors. Because of its dependence on the Diaspora group of clients for its demand side, and with existing economic downturn; there is currently a considerable decline in sales of sampled companies and considerable impact on their ongoing contracts and operations. There is slow and insufficient supply of land, currently the shortage and increased prices of housing construction materials is another factor affecting the market. The inflation and the global economic crises affected the market, materially. Housing prices are less affordable in the market and most of all, long term housing finance are almost nonexistent.

CHAPTER ONE - RESEARCH FOUNDATIONS AND METHODOLOGY

1.1. BACKGROUND OF THE STUDY

Broadly defined, real estate refers to land and everything made permanently a part thereof, and the nature and extent of one's interest there in (Encarta Reference Library, 2006).

Real estate may be acquired, owned and conveyed (or transferred) by any legal entity as determined and defined by law. This entity may take the form of individuals, businesses and nonprofit corporations. The real estate market, on the other hand, is the market that encompasses all transactions, which involve dealings in rights or interests in land and buildings (UN ECE REAG, 2000). A dealing here is used to refer to the transfer of a right temporarily or permanently from one part to another in return for a consideration, usually money. By definition, a market is the mechanism or arrangements through which goods and services are traded between market participants. Applying this concept to land and buildings, we can classify real estate transactions in to either real estate space markets or real estate asset markets.

Abraham (2007) states that 'Real estate generally contributes to a country's economic development as a result of a corresponding growth in the demand for materials, labor inputs and backward and forward linkage effects in the economy'. Despite the fact that in Ethiopia urban land and housing was largely the property of the federal elite under the

imperial era and the coming into effect of a proclamation on urban land and extra houses during the Derg regime; the incumbent government has introduced a market-oriented approach to housing development since the transition in 1991. With the introduction of the urban land lease holding proclamation in 1993, the government defined leasehold as the tenure form of choice. The period of lease varies from 99 years for owner occupied holding to 50 years for commercial and other uses (proclamation no 80/1993). In addition to the land lease law, other measures have contributed to the liberalization of the real estate market.

During this fiscal years (2003/04 to 2007/08), overall economic performance measured by growth in real GDP has registered 11.9% on an average according to the official annual report on Macroeconomic Developments by the Ministry of Finance & Economic Development. Investment in all economic sectors increased dramatically. The percentage contribution to growth from construction in general to GDP rose from 3.3% in 1994/95 to 7.2% in 2004/05 and from 6.8% in 1994/95 to 10.1% for real estate in particular in 2004/05. On the other hand, the rate of growth of the urban population is increasing from year to year. According to the Central Statistics Authority (CSA), current population growth is estimated to be 2.8% per annum, and the growth rate is expected to remain above 2% for the next 20 years. Rural population is growing at about 3.0% while the urban population is growing at about 4.3%. Total population is projected to reach 129 million by 2030. In Ethiopia, of the total population, about 16.0% is estimated to reside in the urban areas. The trend suggests that the size of urban population is likely to continue to grow at a high speed in the future.

The rate of urbanization is directly related to the demand for houses. It is expected that as a country becomes more urban, more houses will be needed to accommodate the increasing population in urban centers. The practice, however, does not support this in that the acceleration in urbanization is not accompanied by the provision of adequate affordable housing. This is one of the reasons for the development of informal settlements, which provide housing to most low-income groups (UN-HABITAT, 2002).

There is an increasing interest to the sector in the country and with concentration in Addis Ababa. The number of licensed entities reaches more than 2000, though the number of operational entities is only 71. A considerable number of registered developers are foreigners. There is considerable increase in the interest of investors over the area of real estate investment.

The market in its demand side is reliant on small group of Diasporas, in which most real estate operators show a 75 up to 95% of their client portion on average is by same groups. And for the remaining some portion it is believed that it still has a Diaspora element if not directly.

In a bid to curb the housing problem, the government also had five years ago launched a grand housing development program involving the construction of 400,000 condominium houses in Addis Ababa and regional cities across the nation. The financing of the housing development project comprises four components, of which the loans allotted to the construction of the condominiums, termed as "bridging finance," is the major one.

The low level of income of the population in developing countries (including Ethiopia) is one factor that limits the development of housing.

Housing loans are loans of a long-term nature provided for the construction (or purchase) of individual houses and business premises. The common practice is to provide housing loans to that section of the population that earns moderate to high incomes, provision of housing loans operates through specialized institutions (mortgage banks), and over a long-term. It is only in rare cases that commercial banks are called upon to engage in mortgage financing.

Mortgage institutions customarily provide housing finance to the middle and high-income segment of the population. This does not exclude, however, cases where these institutions offer long-term loans to lower income groups who can offer clear land title and certifiable income. This trend is outside the actual situation in developing countries including Ethiopia where the poor, low-and even middle-income majority of the population cannot afford a loan even for the least expensive, commercially built housing units.

At least three major reasons can be singled out for the inability of the majority of the population in developing countries to get access to housing loans. These are absence of good collateral; informality and instability of income; and lack of information on borrowers (Erhard, 1999 cited in Abraham, 2007).

Financing possibilities are often limited because of the peculiar nature of the sector. Banks tend to offer short-term credit to large enterprises with better information and financial strength. Instability in income combined with long maturity, makes housing

finance a very risky business for commercial banks. The fact that housing loans are of long-term duration creates a maturity mismatch for commercial banks since their sources of funds are of short-term duration repayable at demand. Credit risk is another risk that is linked to housing finance.

1.2. STATEMENT OF THE PROBLEM

A real estate market can provide a lot of social and economical yields or benefits to a country if it is operated at its level best. The housing front is most vital for national economy and human settlement. The real estate as a business sector includes many services and operations well beyond the real estate development and Brokerage. This market is potentially rich to accommodate many services and operations for employment and investment, which in turn enhance its Development (in to maturity). But in an inefficient infant markets (Like what is prevalent in our country) the sector have much gap to be filled. This research project is therefore intended to investigate and describe the factors affecting the real estate market so as to solve half the way of the problem. The study also suggests some possible remedies to solve the problems out of the findings.

As in many countries of the world, the Ethiopian real estate has been booming for much of this decade. In many areas, prices doubled and even tripled in a span of a few years, and the concern to the house holds is lack of adequate affordable housing. The A.A real estate market is based mainly on the Ethiopian Diaspora and remained very thin and illiquid. With the backlog of housing need, and inadequate existing supply for housing (aggravated by the long construction periods); prices are currently seriously unaffordable

by almost all households in Addis Ababa. And the market's future with similar trend may be difficult to prosper. Available infrastructure to this very infant sector (or market) including its financing is poor. The real estate asset market is now highly constrained, mainly due to the economic down turn and other foundations. Thus, the major objective of this study is to describe those problems and derive logical inferences.

Housing is one of the major problems prevailing in Addis Ababa and other cities & towns across the country. The shortage of housing in cities is very serious that it is estimated to reach over one million. Even though there is a development recently in supply by both the government and private real estate companies, there is still huge gap between housing need of Addis Ababa residents and the supply. With an estimated increase of population by 400,000 every year in Addis Ababa, the required marginal housing need will be more and more than the available supply estimated. In the demand side, with such favorable demographic features, the effective demand (because of affordability) is very few, because of different factors. On the other hand, the supply from the private sector was growing, and according to the Ethiopian investment Agency, The number of licensed companies in A.A is really big number (that would constitute a registered capital in the market in to Br.53 billion), when actually operating numbers are less than 3% of this total. Related issue broadly is considered in this study.

Lack of Modern market system, real estate operations, and basic infrastructures (and complementary requirements) to the market may impede efficiency and liquidity. The real estate brokerage business in Ethiopia is not as well developed relatively. Buyers and sellers rely on agents locally called "Delalas" for buying and selling homes. These are

traditional agents with no formal education in real estate but who basically mediate between buyers and sellers. A great deal of negotiations is involved in buying home. This actually affects its liquidity due to many reasons. Home mortgages are almost nonexistent in Ethiopia. Most real estate transactions are conducted on cash basis. This has limited the liquidity of homes but it may also have prevented the kind of real estate bubbles we witnessed elsewhere.

Players are indeed big investors with big money and most of which are Ethiopian Diasporas. Almost all real estate companies' are based on Diaspora clients not basically on the domestic demanders; most of all, because of their costs are high among other reasons. This dependency on the diasporas may currently hit the market because of the prevailing crises all over the developed world like the US and Europe. Facts revealed that even most of the clients of some of main competitors are these Diasporas out of most of these clients have been from the United States which is in severe economic downturn. This can indeed affect the ability of these Diasporas in financing their payments for these real estate developers for which their employment may be endangered. A general market slowdown can be therefore expected due to this relationship and dependency of the market with these economies our Diasporas (main players in the market) are in.

The government (& other important stake holders) is required to play the role in creating a strong and efficient housing development market which is very crucial to economic development. Similarly, an offer of hospitable foreign direct investment as well as local projects would help for its development.

1.3. OBJECTIVES OF THE STUDY

The general objective of this study is to assess and describe the factors affecting the real estate market. Factors affecting the housing development or real estate market were described also by considering the current global crisis impact on our infant development of the market.

The specific objectives of this study are the following:

- ◆ To assess factors affecting the supply side (and also demand) of housing development market
- ◆ To analyze the existing real estate finance market, determine the mode of payments by customers of real estate developers, and the impact on liquidity and affordability of the real estate asset market
- ◆ To examine issues like affordability of house prices by households of A.A, and market liquidity concern.
- ◆ To see the real estate market operations in Addis Ababa city.
- ◆ To assess what factors basically affect prices of houses in Addis Ababa currently
- ◆ To analyze the impact of the current global economic down turn to the local real estate market
- ◆ To see the Real estate investment trend in Addis Ababa City

1.4. SIGNIFICANCE OF THE STUDY

This project paper entitled as factors affecting the real estate market is expected to provide important information to stake holders in the market including the investors or the real estate developers, the government agencies & regulatory bodies, the real estate marketers or the real estate brokers, customers in the real estate market; in different perspectives.

It can be used as base line information to interested researchers in the real estate area. In addition, it indicates possible research areas that deserve close investigation, including real estate finance and investment, the market prospects, housing affordability in the market among others.

1.5. SCOPE AND LIMITATIONS OF THE STUDY

A complete market analysis typically consists of an investigation of demand, an assessment of recent changes in supply and an attempt to relate demand and supply in a set of conclusions about the market. A complete market analysis would require too much time and resources for which, it will require resources above the student researcher's capacity. Therefore, the study in this area focused on the real estate market relying significantly on the supply side data confined to legally registered real estate companies and also covers data from Ethiopian investment Agency.

With regard to data collection, the researcher was unable to secure important (quantitative data) data, because of excessive perception on confidential information; even the questions were much modified to secure their confidentiality. And the absence of good data base in almost all companies some required figures were estimates.

1.6. METHODOLOGY

The study was particularly under taken in Addis Ababa over a sample of eight real estate companies to investigate and describe the factors impeding the real estate Asset market. Impacts of current economic situations of global down turn, Inflation, foreign exchanges are also studied. Little is known and studied about the sector in Ethiopia as it is also an infant market. As the fundamental objective of the study remains to asses and describe the factors affecting the real estate market in A.A, this study is a descriptive type of research and used the qualitative type of research method.

RESEARCH DESIGN

Source and Nature of Data

Both primary and secondary data were used in the study. The primary data were absorbed through the survey of sampled respondents of Real estate companies. Additional primary data was collected from the Ethiopian Investment Agency and the Construction and Business Bank (CBB) using unstructured interviews. Secondary data necessary for the study were collected from literatures in the area, articles and previous studies conducted by different authors, statistics and other related official data from Central statistical Agency (CSA) and also from real estate developers' documents.

Method of data collection

Primarily, questionnaire and interviews are used to collect primary data. Questionnaire being the dominant tool of collecting first hand data was developed as to collect required data from selected respondents stated above.

Close supervision was made in filling the questions rather than distributing them simply; to avoid the gap of understanding or lack of care in filling the questionnaire by respondents as desired. In addition, it was easy to trap additional information by creating direct supervision and also additional discussions. It was success full to secure additional important information, doing so.

The Questionnaire was developed for the selected real estate companies. Most of the questions are designed to be close ended and only some are open ended. In addition, unstructured interview (and discussions) with most of the respondents was made so as to earn additional explanations and information to fill the gaps.

Interviews with one officer for investment support and supervision of the Ethiopian investment Agency and one Loan officer for the CBB were conducted to gather necessary data.

SAMPLING TECHNIQUE

A complete market analysis typically consists of an investigation of demand, an assessment of recent changes in supply and an attempt to relate demand and supply in a set of conclusions about the market. A complete market analysis would require too much time and effort for which, it will require resources above the student researcher, as it is also stated in the scope and limitation part. Therefore, the study in this area will focus more on supply and will consider on secondary data of demands.

The total target population of operational real estate entities in A.A is seventy one (71), and all supply residential properties to the market, among which most are very young, and not yet completed any sales up to now. That means, very few have passed through

the market and know better what basic factors impede their business in the market, which is the question of the study. A stratified sampling technique having a stratum of Age and size of operators may be used; but the required specific data was difficult to find. Thus, the purposive sampling method was chosen to include the sample units of real estate companies based on their experience (s) and relative size (based on capital). Thus, the study considers a sample size of Eight (8) selected companies.

Data Processing and Analyses

The relevant data after collection were processed and analyzed through the use of a statistical software package called SPSS. The data from questionnaire was sorted out and at the same time information checked for completeness. Then, responses on the questionnaires and interviews were examined to derive relationship among variables affecting the real estate Market in Addis Ababa.

Basic statistical tools are employed in the analyses of the data. A descriptive data analysis was chosen for its simplicity and clarity of presentation in drawing inferences. Average and percentage computations employed for analysis purpose when necessary.

CHAPTER TWO -LITARATURE REVIEW

2.1 REAL ESTATE

2.1.1 Meaning of real estate

Modern definitions focus on the fact that a real estate refers to the land and fixtures together, as distinguished from real property, referring to ownership rights of the land itself. A contemporary definition of real estate is provided by investors: Real estate is a term that encompasses land along with anything permanently affixed to the land, such as buildings, specifically property that is stationary or fixed in location.

Thomsett and Thomsett (1994, P.6), defined real estate as land and all permanent improvements on it, including building.

According to Geissler (2008) the term is artificially delineated space referenced to a fixed point on the surface of the earth with a fourth dimension of time. It is built to house an economic activity that is subject to cultural preferences and restricted by the public infrastructure.

Real estate includes entities such as residential homes, raw land, and a variety of forms of income property, including warehouses, office and apartment buildings, and condominiums.

Considering the similarity, all the authors define real estate as land that is identifiable and tangible. They further included all fixtures, improvements and buildings that are permanent to the land are to be considered as real estate.

2.1.2. Basic Types of Real Estate

Mainly there are two types of Real estate operations which also include many segments under each. The different dimensions of real estate segmentation in relation to the real estate market are discussed in next part. The basic types are indicated below:

Residential

- Multi-Family,
- Single-Family

Commercial

- Land (All Types)
- Retail
- Agricultural / Industrial
- Office
- Special Purpose

(Gitman and Joehnk, 2007 cited in Aamrote 2008), properties are divided into two income property and speculative property. Income property includes residential and commercial properties that are leased out and expected to provide returns primarily from periodic rental income. Residential properties include single family properties (houses, condominiums, cooperatives, and townhouses) and multifamily properties (apartment complexes and buildings). Commercial properties include office buildings, shopping centers, warehouses, and factories.

Speculative property typically includes raw land and investment properties that are expected to provide returns primarily from appreciation in value due to location, scarcity, and so forth, rather than from periodic rental income. Income properties are subject to a

number of sources of risk and return. Losses can result from tenant carelessness, excessive supply of competing rental units, or poor management. On the profit side, however, income properties can provide increasing rental incomes, appreciation in the value of the property, and possibly even some shelter from taxes.

Speculative properties, as the name implies, give their owners a chance to reap significant financial rewards but carry also the risk of heavy loss. For instance, rumors may start that a new multimillion-dollar plant is going to be built on the edge of town. Land buyers would jump into the market, and prices soon would be bid up. The right buy–sell timing could yield returns of several hundred percent or more. But people who bought into the market late or those who failed to sell before the market turned might lose the major part of their investment. Before investing in real estate, you should determine the risks that various types of properties present and then decide which risks you will accept and can afford.

2.2. REAL ESTATE MARKET CONCEPTS

Charles and Marcus (2005, p.154) indicated that; by definition, a market is the mechanism or arrangements through which goods and services are traded between market participants. Applying this concept to land and buildings, we can classify real estate transactions in to either real estate space markets or real estate asset markets these two are considered next.

2.2.1. Real estate space markets

This market involves transactions for the rights to use land and buildings. On the demand side of this market, are people and other entities that are willing to pay to use space for consumption or production purposes. The supply side of the market involves property owners who are willing to sell such space to users. The price of use in the space market often called rent, even if the owner/occupant of the space.

Users of space often have specific requirements for the type of space they demand and the locations of that space. A family for example, wants comfortable, attractive living, space near shopping, education, and entertainment resources. But a manufacturing firm is likely to be more concerned with functionality and proximity to its customers or raw materials suppliers. Suppliers in the space market have buildings that was designed for specific uses and are fixed in their locations. Because supply and demand is location and type specific, real estate space markets are highly segmented.

Real estate space markets can be categorized by property usage and by geographic boundaries. The major segments of real estate space market include residential, industrial, retail, office, agricultural, and lodging.

Price Movement in Segmented Real Estates Space Markets

The basic supply and demand model from an introductory economics course can be quite useful in understanding price movements in real estate space markets, with only a few modifications. The demand function for real estate space looks very much like the

demand function for most other goods and services. The demand curve is downward sloping, suggesting that the quantity, demanded falls as prices increase.

The supply function, however, has an unusual shape because real estate space is a long-lived item whose quantity cannot be reduced quickly in response to changes in demand. The Supply curve is depicted as vertical at the current quantity of space in the market and approximately horizontal at all higher quantities. The vertical portion reflects the inability of suppliers to adjust the quantity of space in the market quickly. The horizontal portion reflects the notion that long-run marginal cost of developing new space does not vary as space increases. That is, the cost of constructing the next building is not affected by the amount of space already in existence in the market. Most space market segments around the United States have a long-run supply function this is nearly level, but there are some exceptions Ibid (p.157).

2.2.2. Real estate asset markets

Where as the real estate market reflects transactions involving the use of space, the real estate asset market reflects transactions involving cash-flow rights to real estate. The term *cash-flow rights* reflects the claims to the future flows the buildings and land are expected to generate, The participants in this market are concerned with the amount and timing of the cash flows a building is capable of producing rather than the building's configuration for a particular use. These market participants make their decisions about buying and selling by comparing real estate assets will other capital market assets such as stock and bonds. As such, the real estate asset market must be regarded as part of the larger capital market, the market for capital assets of all types.

To understand how real estate assets compete with other capital assets, Charles divided the capital asset market into broad categories: *publicly traded equity assets, publicly traded debt assets, privately traded equity assets, and privately traded debt assets.*

Public market transactions typically involve relatively small portions of ownership rights to various capital assets. The stock market is the most obvious example of a public market. Shares of corporations' trade in huge volume on any given trading day, and observed prices reflect all currently available information about the assets.

Private markets involve transactions between individual buyers and, sellers without the aid of formal market mechanisms. Private markets usually involve the sale of whole assets rather than shares of assets. Because such transactions happen less frequently than public market transactions; and because the parties to different categories of real estate asset markets are well integrated with each other and the markets for other capital assets. The prices of real estate asset in the private equity market reflect the integration of all capital markets and the competition between asset markets for investor's dollars.

Price Determinants in the Real Estate Assets Market

On the topic of real estate asset market Charles & Marcus (1994, p.163) states: "Real estate asset market prices are determined by three main factors: opportunity of capital, growth expectations and risk." Investors make their Buy/sell decisions about real estate assets by comparing the return they expect to get from real estate assets with alternative rates they could earn from other capital assets in the capital market. As the opportunity

cost of capita goes down, investors are generally willing to put more money into real estate assets, thus, driving up their prices.

Investors are also concerned with the likely amount of growth (or decline) they expect from a property's cash flow. The cash flow a property can generate is of course, determined in the real estate space market, as we previously discussed. The higher the expected growth rate in the space market, the more money investors will be willing to pay for property in the asset market.

Finally, the third determinant of prices in the real estate asset market is risk. Investors will evaluate how certain (or uncertain) they feel about property's future cash flows and will prefer to pay less for a property with higher risk. Paying lower prices allows the investor to have a higher expected return for a given level of risk.

2.3. REAL ESTATE AS A BUSINESS SECTOR

With the development of private property ownership, real estate has become a major area of business. Purchasing real estate requires a significant investment, and each parcel of land has unique characteristics, so the real estate industry has evolved into several distinct fields. Specialists are often called on to value real estate and facilitate transactions. Some kinds of real estate business include:

- Appraisal: professional valuation services
- Brokerages: A fee charged by the mediator who facilitates a real estate transaction between the two parties.
- Development: improving land for use by adding or replacing buildings

- Property management: managing a property for its owner(s)
- Real Estate marketing: managing the sales side of the property business
- Real estate investing: managing the investment of real estate
- Relocation services: relocating people or business to a different country
- Corporate Real Estate: managing the real estate held by a corporation to support its core business— unlike managing the real estate held by an investor to generate income

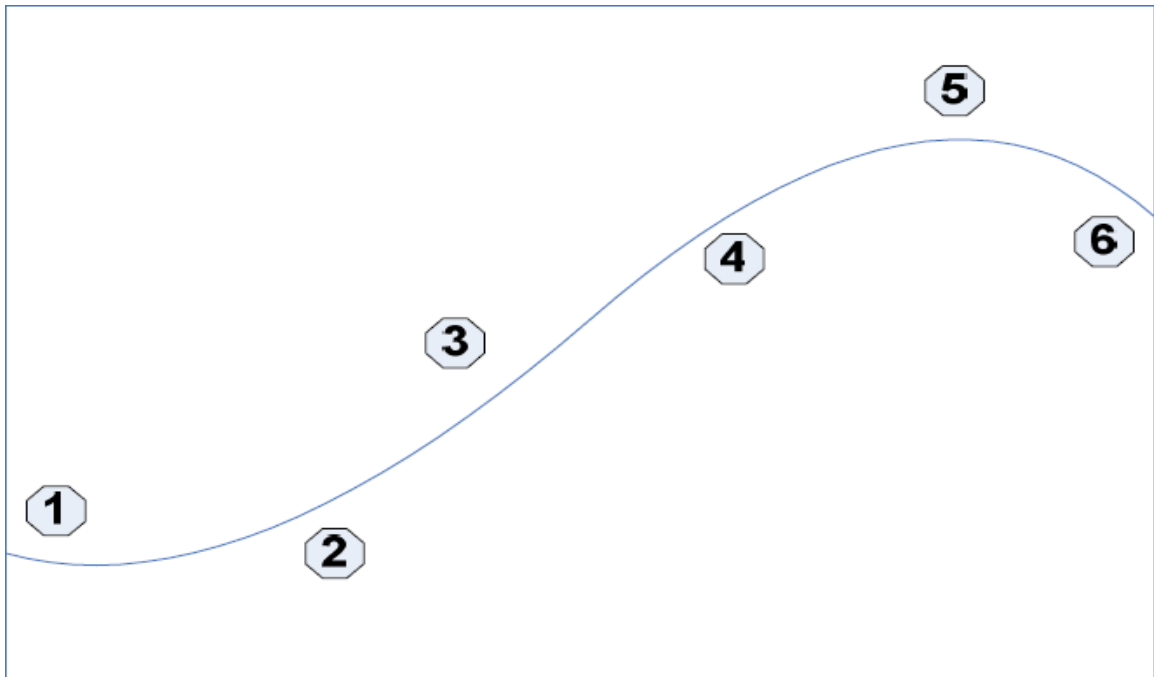
With in each field, a business may specialize in a particular type of real estate, such as Residential, commercial, or industrial property. In addition, almost all construction business effectively has a connection to real estate.

“Internet Real estate is a term coined by the internet investment community relating to ownership of domain names and the similarities between high quality internet domain names and real world, prime real estate.

2.4. THE REAL ESTATE CYCLE

Although comparatively few studies have been made of the real estate cycle, it is generally agreed that building activity follows to a degree the business cycle in a wave-like movement. It is further indicated by Unger and Karvel, 1979 (cited in Amrote, 2008,p19) that the volume of real estate activity does not necessarily advance with the increases in general business, and declines in real estate activity generally precede general business declines. It appears that the troughs and peaks of the real estate cycle go deeper and higher than those of the business cycle.

As indicated below, real estate investments react to economic cycles just like all other investments.



Source: Thomsett & Thomsett, Getting started in real estate investing, 1998 p.14

The major points in the cycle-falling and rising prices, for example-are characteristics of supply and demand. The tendency dictated by this basic economic idea that prices rise and fall according to levels of supply and demand is the guiding force in selecting investments, timing purchases and sales, and selecting one investment over another.

The events and conditions influencing real estate value are referred to as the real estate cycle. The stages vary in length of time and rapidity of changes in market conditions.

There are however, six distinct can be identified in the course of the real estate cycle.

These points are summarized in Figure 2 above and the points are: 1. Demand begins to rise 2. Construction activity increases 3. Demand slows 4. Supply exceeds demand 5.

Construction activity decreases 6. Demand bottoms out.

In practice however, the actual cycle for a specific region will be affected by many complex, social, political and even historical factors. But for now the focus is on a straightforward comparison between supply and demand. In a sense, real estate is different from most consumer goods that are produced. This uniqueness results from the fact that the supply of real estate cannot be as rapidly adjusted to demand as can other consumer products. This is because of the length of time that it takes to produce a dwelling unit.

A good market can exist only when competition is able to operate. For an efficient market to operate there must be neither a seller's market nor a buyer's market, and both buyers and sellers must have knowledge of the product and prices prevailing in the market. More important, perhaps, for competitive forces to operate effectively, the product must be standardized and relatively nonperishable. Real estate is not standardized; it is differentiated by location within a housing market, as well as by size, condition, mechanical equipment, price, and workmanship. Furthermore, buyers and sellers often have incomplete knowledge of the market. Thus, the real estate market operates inefficiently as compared with the stock market or market for "personal" goods.

2.5. REAL ESTATE (HOUSING) FINANCE CONCEPTS

2.5.1. Housing Loans

Housing loans are loans of a long-term nature provided for the construction of individual houses and business premises. The common practice is to provide housing loans to that section of the population that earns moderate to high incomes, provision of housing loans operates through specialized institutions (mortgage banks), and over a long-term. It is only in rare cases that commercial banks are called upon to engage in mortgage financing.

Mortgage institutions customarily provide housing finance to the middle and high-income segment of the population. This does not exclude, however, cases where these institutions offer long-term loans to lower income groups who can offer clear land title and certifiable income. This trend is outside the actual situation in developing countries including Ethiopia where the poor, low-and even middle-income majority of the population cannot afford a loan even for the least expensive, commercially built housing units. In Ghana, for instance, only 5 percent of those who want to own a house can do so from their own resources, 60 percent would need some form of financial assistance, and the remaining 35 percent are not capable of owning and building a house in their lifetime (Derban, 2002, cited in Abraham, 2007 p.2).

At least three major reasons can be singled out for the inability of the majority of the population in developing countries to get access to housing loans. These are absence of good collateral; informality and instability of income; and lack of information on borrowers (Erhard, 1999).

Tomlinson (2007) stated that the underdevelopment of the real estate market, and hence the absence of “real” market prices makes it difficult to determine the value of a mortgage. In other words, it is difficult to assume that the mortgaged object will be sold at a price that equals at least the outstanding debt. It is also difficult, in most of the cases, to find documentation on income (salary statements, financials statements, etc.). Even if it is possible, the information obtained will be manipulated for reasons of tax evasion or other reasons.

Credit risk is another risk that is linked to housing finance. This arises as a result of the high magnitude of the housing loans in comparison to the income of the borrower, and the less developed regulatory and legal frameworks for mortgage loans recovery. The argument is that banks, in case of default, will be in a difficult position to easily convert mortgaged property into liquid funds without entering into a lengthy and costly legal procedure (www.unchs.org). The narrow real estate market is another problem for loan recovery making it difficult to dispose of defaulters’ assets.

Because of this, housing finance programs are required to exert large efforts towards straightening households, housing and property issues, (www.citiesalliance.org). Housing and property issues include the set of laws, regulations, processes and institutions that define whether and how poor households can acquire land and build a home upon it. Household issues include the income levels of poor households relative to the cost of housing and households' ability to finance the necessary steps in acquiring land and

building a home. Laws and regulations define the activities of financial services, the number of providers that serve the poor and the appropriateness of the housing finance products relative to the needs and means of the poor are also important issues. These are the enabling environments for the development of housing micro-finance and for the increasing ability of low-income households to have access to houses.

Different approaches to housing finance are, therefore, required, as access to small amounts of credit, with short-term maturities, can be useful if the poor and low-income groups are to be supported. These require profound risk evaluation, financing through public mortgage institutions, and financing through micro-finance institutions.

One of the approaches proposed is the substitution of collateral by a profound risk evaluation. The risk evaluation bases the credit on a sound appraisal of the borrower's willingness and capacity to repay (i.e. cash flow analysis). It considers the incomes and expenses of the house and business of the loan applicant and crosschecking these with other sources of information like neighbors, employers, suppliers, etc. Banks do not use this approach, as the information on which to base the cash flow analysis is weak and unreliable.

The other is financing through public mortgage institutions. These usually provide loans at interest rates below the market or even the inflation rate, using funds from budget allocations and captive savings in the public sector, such as reserves of insurance institutions and pension funds (www.unch.org, cited in Abraham, 2007). This, which is a sort of credit guarantee scheme, will increase the capacity of the mortgage institutions to

provide adequate loans to households who often rely on their own savings and informal loans from friends and relatives.

Housing finance can also be offered through micro-finance institutions. The features of micro-finance such as small incremental loans, short repayment periods, market rates and innovative forms of collateral such as peer group lending and alternative forms of titles of land present another form of lending mechanism available to low income group of the population. Micro-finance for housing is the provision of small loans to low and moderate-income households typically for self-help improvements and expansion, but also for new construction of basic core units (Derban, 2002).

In some cases NGOs that work with housing issues, e.g. Habitat for Humanity, have taken on microfinance for housing as a means of scaling up their activities and/or to provide assistance to residents who have been successful in acquiring land and are keen to build houses. In addition, the UN-Habitat report (2005) describes how some governments are recognizing the reality of the incremental building process and are starting to take steps to ensure that suitable financial institutions are established that specialize in small micro loans.

2.5.2. Mortgages in the Real Estate market

A **mortgage** is a device used to create a lien on real estate by contract. The mortgage is an instrument that the borrower (called the mortgagor) uses to pledge real property to the lender (called the mortgagee) as security for a debt, also called hypothecation (www.realestateabc.com).

The mortgage instrument contains two parts:

- The mortgage, which is the pledge
- The note, which is the actual evidence of the debt and promise to repay

To protect the lender, a mortgage is recorded in the public records creating a lien (when there are multiple liens, order of recording determines priority).

2.5.3. Mortgage loan types

There are many types of mortgage loans. The two basic types of amortized loans are the *fixed rate mortgage* (FRM) and *adjustable rate mortgage* (ARM).

In a FRM, the interest rate, and hence monthly payment, remains fixed for the life (or term) of the loan. In the US, the term is usually for 15 or 30 years. In the UK the fixed term can be as short as five years, after which the loan reverts to a variable rate.

In an ARM, the interest rate will periodically (annually or even monthly) adjust up or down to some market index. Adjustable rates transfer part of the interest rate risk from the lender to the borrower, and thus are widely used where unpredictable interest rates make fixed rate loans difficult to obtain.

A partial amortization or balloon loan is similar to a FRM, but the balance is due at some point short of the full term.

Many economists have recognized that the lack of effective real estate laws can be a significant barrier to investment in many developing countries. In most societies, rich or poor, a significant fraction of the total wealth is in the form land and buildings

In most advanced economies, the main source of capital used by individuals and small companies to purchase and improve land and buildings is mortgage loans (or other instruments).

These are loans for which the real property itself constitutes collateral. Banks are willing to make such loans at favorable rates in large part because, if the borrower does not make payments, the lender can foreclose by filing a court action which allows them take back the property and sell it to get their money back. For investors, profitability can be enhanced by using an off plan or pre-construction strategy to purchase at a lower price which is often the case in the pre-construction phase of development. But in many developing countries there is no effective means by which a lender could foreclose, so the mortgage loan industry, as such, either does not exist at all or is only available to members of privileged social classes.

Other loan types include: term loan or interest-only loan, equity loan, blanket loan, package loan, wraparound mortgage, seasoned mortgage, reverse mortgage, budget loan, deed of trust, and bridge loan.

2.5.4. What is an ARM?

As per The Federal reserve's Consumer Hand Book (USA), an adjustable-rate mortgage differs from a fixed-rate mortgage in many ways. Most importantly, with a fixed-rate mortgage, the interest rate stays the same during the life of the loan. With an ARM, the interest rate changes periodically, usually in relation to an index, and payments may go up or down accordingly. To compare two ARMs, or to compare an ARM with a fixed-rate

mortgage, you need to know about indexes, margins, discounts, caps on rates and payments, negative amortization, payment options, and recasting (recalculating) your loan. You need to consider the maximum amount your monthly payment could increase.

Most importantly, you need to know what might happen to your monthly mortgage payment in relation to your future ability to afford higher payments.

Lenders generally charge lower initial interest rates for ARMs than for fixed-rate mortgages. At first, this makes the ARM easier on your pocketbook than would be a fixed-rate mortgage for the same loan amount. Moreover, your ARM could be less expensive over a long period than a fixed-rate mortgage—for example, if interest rates remain steady or move lower.

2.5.5. Subprime mortgage

Subprime mortgages are loans made to borrowers who are perceived to have high credit risk, often due to bad credit history, hence the loans are generally considered more risky. To compensate for the credit risk, the lenders tend to charge higher fees and interest rates than prime mortgage loans and it is also likely that the loan will have a pre-payment penalty (Laderman 2001). The subprime mortgages often have a low rate the first couple of years. After that, the market rate is used with a markup to compensate the credit institution for the higher risk they have taken (Nyberg 2007, Cited in Karlsson, 2007)

For over a year, a hot topic has been the subprime mortgage market in the US. This can be seen as the most recent crisis concerning real estate.

Even though subprime mortgages appeared on the financial market more than two decades ago, they did not begin to expand significantly until the mid-1990s. The expansion included the development of credit scoring that made it easier for lenders to assess, and price risks. Deregulations made it possible to repack the credits into

derivatives, and resell to a legal unit that financed the loans by selling bonds. This was done in order to achieve greater access to capital markets, lowered transaction costs, and allowed risk to be shared more widely (Bernanke, 2007).

The bonds were given different status for payment, and the highest prioritized bonds got high ratings, even if the underlying loans were of high risk. Through this mechanism, a lot of debt can be achieved, that can have subprime risk in the structure. When the prices of houses increased, competition among mortgage institutes did as well. They pushed their lending marginal and even lowered security in some cases. So when the Federal Reserve Bank in the US increased the interest rate from 1 percent to 5.25 percent between 2004 and 2006, the costs of the household's loans increased as well and the cost for people with subprime mortgages became significantly higher (Nyberg 2007, cited in Sofie Karlsson, 2007)

Sub prime mortgage lending has grown tremendously in recent years, both in terms of dollars and in terms of the share of total mortgage originations. Subprime mortgage originations grew from \$35 billion in 1994 to \$140 billion in 2000, indicating an average annual growth rate of 26%. Similarly, subprime originations as a share of total mortgage originations grew from 5% in 1994 to 13.4% in 2000 (Laderman 2001).

2.6. Overview of the Development of the Real Estate Sector in Ethiopia

Despite the fact that in Ethiopia urban land and housing was largely the property of the federal elite under the imperial era and the coming into effect of a proclamation on urban land and extra houses during the Derg (a name associated with the military government

that ruled Ethiopia from 1975-1991) regime, the current government has introduced a market-oriented approach to housing development since the transition in 1991. With the introduction of the urban land lease holding proclamation in 1993, the government defined leasehold as the tenure form of choice. In addition to the land lease law, other measures have contributed to the liberalization of the real estate market. Subsidies on the sale of building materials have been removed; interest rates for housing construction loans have been set at market rates.

Yirga, 2008 (Cited in Amrote,2008, p.28)Although the current government policies still do not allow outright ownership of land, most other restrictions as mentioned above regarding the use of land for a variety of real estate activities have been removed. This then was the context in the mid-1990s when a few pioneering companies began to conceive of large scale developments and offered buyers the opportunity to buy into them with promises of low priced but good quality housing. Ayat became the first major, successful residential real estate developer of the era, planting the seeds for the impending desire by many to invest in the lucrative business. It became clear in very short, order that Ayat and some of the other earlier entrants had tapped into an enormous reservoir of pent up demand for housing in Addis resulting in first a trickle and then a flood of new entrants into the sector.

Ethiopia's overall GDP over the 1995/96-2005/06 period has shown an average growth of 5.4%. According to Tesfaye (2008), investment in all economic sectors has increased dramatically from 1994/95 to 2004/05. The percentage contribution to growth from construction in general to GDP rose from 3.3% in 1994/95 to 7.2% in 2004/05 and from

6.8% in 1994/95 to 10.1% for real estate in particular in 2004/05. On the other hand, the rate of growth of the urban population is increasing from year to year. According to the Central Statistics Authority (CSA:1994), current population growth is estimated to be 2.8% per annum, and the growth rate is expected to remain above 2% for the next 20 years. Rural population is growing at about 3.0% while the urban population is growing at about 4.3%. Total population is projected to reach 129 million by 2030. In Ethiopia, of the total population, about 16.0% is estimated to reside in the urban areas. The trend suggests that the size of urban population is likely to continue to grow at a high speed in the future. The share of urban population will rise from 16.0% in 2005 to about 23% by 2030. Nearly 30 million of the total 129 million will live in cities and towns by 2030.

Table 1: Data on real estate investment projects status in A.A from 1984-2001 E.C (Some years omitted)

Investment Status	Data	1984	1986	1988	1990	1992	1994	1996	1998	1999	2000	2001	Grand Total
Implementation	No of Proj.		7	7	10	3	1	6	27	8	13	3	129
	Capital.		40631	19885	1639500	30796	607	130770	82627	109660	83688	5555	2445365
	Perm.emp.		251	68	213	204	4	590	254	349	321	34	3189
	Temp.emp.		0	0	0	0	0	430	591	1051	568	0	3128
Operation	No of Proj.		2	4	3	5	2	3	12	1	1		71
	Capital.		10369	971866	9944	230528	6602	42304	59954	515000	50000		2352077
	Perm.emp.		46	10	33	76	4	585	3140	5	500		4860
	Temp.emp.		0	13	0	0	0	415	343	25	200		1888
Pre-Implementation	No of Proj.	3	53	10	22	29	21	79	431	342	537	350	2293
	Capital.	16820	304646	72544	360818	1248627	110344	791296	4095029	9830971	19443859	6127219	48641318
	Perm.emp.	142	1051	99	370	1342	421	4375	7920	65770	64157	10341	166648
	Temp.emp.	0	372	100	10	6610	20	4664	19699	23374	62961	20032	159849
Total No of Proj.		3	62	21	35	37	24	88	470	351	551	353	2493
Total Capital.		16820	355646	1064294	2010261	1509951	117553	964370	4237610	10455631	19577547	6132773	53438760
Total Perm.emp.		142	1348	177	616	1622	429	5550	11314	66124	64978	10375	174697
Total Temp.emp.		0	372	113	10	6610	20	5509	20633	24450	63729	20032	164865

Source: Ethiopian Investment Agency, May 2009

The total number of currently operating real estate operators in Addis Ababa is seventy one (71) and the employment opportunities is 4,860 permanent and 1888 for temporary employees. The total registered capital by all is Br. 2,352,077,000. In the implementation and pre-implementation stage there are 129 and 2293 projects having registered capital (br.244,5365,000 & br. 48641318), respectively.

There is a huge gap between the demand and supply of houses in Addis Ababa, the capital city (Abraham, 2007). A vibrant real estate sector is crucial to economic development. Similarly, transparent and cost-effective land use policies offer a hospitable environment for foreign direct investment as well as local projects. At present, however, real estate lending and real estate transactions in Ethiopia are severely constrained by a number of factors, including a large concentration of unregistered properties, delays and other problems in enforcement of legal contracts; excessive taxes, fees, and permitting requirements, and urban development activities stalled by an overly-layered administrative framework and by the lack of resolution of the restitution issue.

Abraham stated, the residential housing market in Addis is the price one has to pay both in relation to those in other metropolitan areas of the world as well its almost incongruous disparity with what the vast majority of residents in the capital can afford.

CHAPTER 3

RESULT ANALYSIS AND DISCUSSION

In this chapter the results of questionnaire collected are presented using basic descriptive statistical tools, and analyses drawn out of the presentations of data (in tabular form). A thorough discussions and interpretations are made in order to derive sound inferences and conclusions. Secondary data from related studies, statistics from agencies are considered to support arguments derived using primary data in this study. And finally, a secondary data analysis is included.

This chapter begins with the analyses and discussion for general information of sample respondents and continues to detailed parts of the questionnaire parts, in order to come with set of results that achieves the stated objectives of the study. In the following section the general information of respondents' profile is analyzed.

3.1. GENERAL PROFILE OF SAMPLED RESPONDENTS

Table 2 General Profile of Sampled Respondents

Company Name	Est. Year	Type of Real Estate Development	Head office location (Sub city)	Site(s)
Akakas Real estate PLC	2006	Residential Properties	Kirkos	Around Ayat
Ayat S.c	1996	Residential properties	Ayat area	Ayat
CCD PLC	2003	Residential properties	Bole	Legetafo
Enyi Real estate PLC	2006	Residential properties	Arada	Jimma Road & bole bulbula
Gift	2006	Residential properties	Kirkos	Yeka
Kara Kore	2002	Residential properties	Bole	Kara Kore slopes in the Ayer Tena District
Sunshine	2001	Residential properties	Kirkos	CMC, Gerji, Legetafo, & Bole-beshale
Zenebe ferew	2005	Residential properties	Nifas-Silk	Karakore

The above companies are considered for the study as sample respondents for which primary data via questionnaire was collected from. Their establishment period as can be seen is in different years, some are pioneers including Ayat and sunshine; in the middle (for this study purpose) Karakore and Country Club Developers (CCD) are considered; and others are established recently which can be said as new entrants. Some have passed through the learning curve relatively and are experienced; the first pioneer Ayat has already developed and sold 4000 residential houses. On the other hand the new entrants who are now active in the market only handed over only some houses up to now. In the next part, the operation area or their development focus to supply residential or commercial houses is analyzed and discussed.

3.1.1. Types of Real Estate Operations

Real estate developers can be engaged in two types of operations; that is developing residential and income producing properties (or commercial properties). Similarly, the real estate market is classified in to two; the Real estate space market and the real estate asset market. As it can be seen from the above table, all respondents in this study are engaged in the development and sale of residential properties.

This market seems conducive and easy to operate in to the infant real estate industry players. Mainly, the vacant plots of lands that can be leased by the city administration that are best situated are hard to find if not very expensive. And it can be justified also with regard to the capital requirements and capital tied-up until these commercial properties started to give yields. This is especially true, if developers are to think of investing in commercial properties over the peripheral areas of Addis Ababa in which

they are now developing their residential properties (also with the financing terms less risky and less costly relatively) their return will not be fast and cost of capital is pretty high, including property management.

In addition, it is evident there is huge gap between the current demand and supply even assuming the good progress of city's supply of condominiums. This huge gap calls the interest of the real estate developers and creating an important & attractive real estate asset market. However, it does not mean that the development of income producing properties (the real estate space market) is not lucrative, yes it is. Although the high rise buildings rental prices vary from br.200 up to br.400 or more per square meter, building in upscale areas such as bole, piazza, haya-hulet, and Mexico areas; are worth much more than buildings found in outlying areas. This is also true for the selling prices of residential properties.

A particular example from observation can be at least taken to understand the cash flows from those best suited income properties. In haya-hulet, on the main street to Megenagna; the rental prices for those spaces in the second floor is Br.400/Sq. meter, even though space prices differ in different floors of same building. Higher prices can be expected in around the main street of Bole.

Thus, all of the respondents are working on the supply of residential houses. The most problems associated with this market is the lack of social and physical infrastructures to most current sites and possible areas for lease And mainly the delays in providing large

plots of land to the already registered ones; restrict their entry. Other basic impediments are also to be discussed in detail in the next parts of this chapter.

3.1.2. Customer Focus based on income level

Table 3 Customer Focus

Customer Groups Based On Income Level	Frequency	Percent
High income level (Luxurious types)	3	37.5
Middle income levels	1	12.5
High & middle income levels	4	50.0
Low income Level	-----	-----
Total	8	100.0

Most focus on high income and middle income levels, those who are capable to fulfill their terms for down payment and subsequent installments. The summary depicted that 37.5% of them focus on the upper class providing only luxurious homes which are heavily costly. Only one of the respondents (12.5%) currently focused on the middle income buyers' need. The rest accounting for 50% of the sample have targeted on both middle and higher income earner groups.

Those developers focusing (like Sunshine for example) on the rich or very rich customer segment built very luxurious and expensive residential homes. The mortgage financing arrangements seems not stringent to these customers; who can possibly satisfy the requirements of the mortgage loan and also the short term bank loans. This segment is characterized by its large money transactions in millions which is very illiquid for that

matter and there are few players in this segment; for which most of them are the successful Ethiopian Diasporas living in western countries.

In addition to the administration's supply for the low cost condominiums focusing basically on the low to middle income earners; some of the respondent developers are on their plan to develop and sell such low cost apartments and condominiums in the near future according to additional discussion results from the respondents. But, still this low costs are possibly to middle income earning house holds, the low income house holds can't be targeted. Thus, low cost houses to be developed by these real estate companies may get an increased demand from middle income earners, not as its name do for the low income house holds. However such operations would enhance the supply with positive demand stimulus, as they are low cost relatively. This market segment encompassing the middles is not as thin as to that of the luxury home market segment, it is relatively liquid.

3.2. AFFORDABILITY OF REAL ESTATE PROPERTIES BY INCOME LEVELS

Table 4 Affordability of real estate properties by different income levels

Affordability	High income level		Middle income level		Low income level	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Highly affordable	6	75.0	1	12.5	-----	-----
fairly affordable	2	25.0	7	87.5	-----	-----
Not affordable	-----	-----	-----	-----	8	100.0
Total	8	100.0	8	100.0	8	100.0

The residential real estate properties of the sampled companies are totally unaffordable by the lower classes as all (100%) of them indicated the same. 75% of respondents states

that their properties of such standard are highly affordable by the upper classes of buyers as per income level and only 25% told it is fairly affordable for this class. Except for one of the respondents all have indicated the perceived middle income earners can fairly afford to buy their residential properties.

Even though, concrete quantitative data most explains the situation and avoids subjectivity among respondents, such data for price trends and current median income level of house holds in Addis Ababa are not available. But, to achieve the internationally accepted standard of housing affordability, house prices should not exceed three times annual household income, According to the *Demographia international*, that conducts annual International Housing Affordability Survey.

Demographia uses the internationally recognized standard of the Median Multiple to rate housing affordability. In this method the median house prices of each individual market are divided by the median annual gross household income of that particular market. This method of assessing affordability is recommended by the United Nations and the World Bank.

According Abraham's study, based on PADCO (1998) report,

“... housing cost to income ratio is 13.9 times for ‘chika’ construction, and 29.2 times for concrete block units. The ratio implies that households would need to save 14 to 29 times of their income to be able to make a cash purchase of housing without the support of long-term financing, suggesting that housing affordability is extremely low. This suggests that the housing market is in a state of imbalance, with housing prices and costs standing at levels well above most dwellers’ ability to pay.”

Demographia has four categories of housing affordability. Those that require three (3.0) years or less annual median household income are rated “affordable”; four (4.0) and below “moderately unaffordable”; five (5) and below “seriously unaffordable” and above five years (5) annual income “severely unaffordable”.

Accordingly, it is difficult to get the median price level of housing units in A.A, which is the main variable in computing the above affordability rates. But in enabling the market to mature and enhance its efficiency such real time market data are very important for many purposes.

An important advantage to buyers in the asset market is to enjoy the faire price of developers’ (suppliers) properties than self built homes generally. This can be achieved through the possible operational economies of scale; though it is not true to all developers (especially not by the small scale developers). Because real estate developers buy their housing construction materials in a very large quantities and lease hold of large plots, and they get it at much lower price than individuals do. But the question is, how much can this advantage be passing through to buyers as part of home prices.

In a very competitive market the companies have to hand over the advantage since, the rivalry in such market force them set a very competitive price in which the bargaining power of buyers is positively enhanced. However, the housing market in Ethiopia and also in A.A is very infant and not characterized as competitive market. In other words, it

is not matured industry. Not only that, the public or potential buyers particularly, have minimum awareness to the real estate business or market and are not easily convinced. In simple terms, customers or home buyers are not informed buyers for most, Because of the absence of transparency and the market is not well structured & modernized.

This means in general, the absence of competition (& efficiency) and lack of contemporary real estate market may hinder a fair price setting practice which also affects the affordability of those buyers. Also, the demand side of the market will be constrained.

An important factor about affordability to be considered is the income level of the households and the relative access to housing finance most importantly, long term loans. The general economic status in A.A as it is true to all other regional urban areas is subsistence type. As per the poverty incidence report included in the UN Habitat in 2000, and for the under poverty line percentage urban population; A.A accounts a 36.2%, resulting a zero effective demand for housing from this category of very poor households. Also, according to PADCO (1996) housing need assessment in A.A, the median income of households was ETB 391, with median expenditures as much as ETB 382, a clear demonstration that most households were simply *incapable* of saving even a small fraction of their income.

The next table According to 1995/96 Household Income, Consumption & Expenditure Survey (HICE), is also good indicator to see the then income profiles According to 1995/96 Household Income, Consumption & Expenditure Survey (HICE), in urban

Ethiopia, 26.5 % of households earn less than 2000 Birr or 316 US dollar annually (Birr 170 monthly or US\$ 27), While the top 12.5 % of urban households earn 12,600 Birr or more annually (more than 1,000 Birr or US\$158 per household monthly). The remaining 61 % earn between 2000 and 12,599 Birr per year. On the other hand, the majority of urban households, 61.1 %, earn on the average annual income of less than 5400 Birr (a monthly income of less than 450 Birr or US\$71) per household (see table below).

Table 5 Urban incomes per house hold (1995/1996)

Urban	<2000 Br/annum or <170 Br/month (%)	2000-12599 Br/annum or 170-1050 Br/month (%)	>12600 Br/annum or >1050 Br/month (%)
Addis Ababa	15.60	67.25	17.16
Other Urban	30.23	58.67	11.05
Total	26.53	60.98	12.50

Source: 1995/96 HICE Survey

In addition, the 2003 municipal city wide survey revealed only 13.1% of households in Addis Ababa have saving accounts. According to another survey made in 1998, those households who could afford it saved 8.6 percent of total earnings on average. This signals that the self financed investment in homes by residents with poor saving status is almost impossible plus it is not true that they will fit to the housing finance loan terms and conditions-as mortgage for example requires a 30-50% minimum own contribution and interest rate is high which is currently 9.75%.

In general income levels are very low and prices of buildings in the real estate market very high. For example Ayat apartments start at \$42,951 for a two bedroom 62m2 home.

And there is a stringent loan requirement in our country; thus, affordability is highly affected. Thus, the demand side of the real estate market is highly constrained leaving the market very illiquid. The home real estate developers may not rely on local demands. That is why it is not surprise to see majority of Diaspora clientele of builders in A.A ranging from 65-95 percent. The main reason for the very small portion of current demanders locally, is because most can not (even the moderate income earner house holds) afford or can not able to secure finance.

When the housing finance in which its importance is unavoidable, is to be considered, lack of competitive and sufficient mortgage market affects the affordability of properties which also restricts the potential demands and market remains very thin and illiquid. Although limited credit facilities are available the interest rates are forbiddingly high and none provide long term financing. Today's lending rat ranges from 7.5-13% but maturities are very short. Overall, only a tiny portion of house holds in A.A would be in apposition to access the bank credit under existing housing and loan regulations.

Moreover, the current escalating prices of housing construction materials brings a skyrocketed prices of the properties, when house hold income do not show significant improvement; leads to forbiddingly unaffordable houses to buy.

Residential properties (common types like villas, apartments and town houses) developed by real estate entities are generally not affordable by the low to moderate income groups. Rather they are fairly and or highly affordable (as to the sample responses) to the tiny

upper class (or the so called ‘Tujar’) and by most Ethiopian diasporas living in western countries.

Generally speaking, when many people or house holds can afford to buy homes the demand side of the real estate asset and space markets are positively enhanced and as a result the supply side; thus, the market would march to its efficiency. But this is not true to our case, because only a tiny part of house holds can afford it currently. That is why the market remains very illiquid. Affordability is not only affected by the majority’s economic status of house holds and their poor saving trends; but also because of the almost unavailable (& non subsidized, unlike to the past trends) long term loans for housing and inflation impact on prices of houses, among others.

3.3. FINANCING ARRANGEMENTS BY BUILDERS WITH THEIR BUYERS

Table 6 Financing Arrangements and alternatives used

	Frequency	Percent
Cash basis	1	12.5
Mortgage financing with bank	5	62.5
Other bank loans	-----	-----
Others	2	25.0
Total	8	100.0

Financing commonly works for buyers either paying cash as a lump sum or on an installment basis as their home is built. And final payment is made at the time the home is turned over to the buyer.

From the above table, only one of these respondents has indicated that only cash basis sales agreement is rendered, that there is no special loan support or facility is not furnished to its customers. Only self financing buyers are welcomed. However, 5 (62.5%) of them do have a credit facility support to their buyers, in which only 2 of them have a formal arrangement (Bilateral agreement) with the CCB.

Continuously, the bank's requirements are modified being more stringent for reasons to be explained later. Among other requirements, the minimum own contribution to those buyers is now ranging from 30-50% of the property value, and interest rate which is dependent on the saving interest has raised to 9.75%.

The availability of sufficient and efficient mortgage products is true to enhance the development of the real estate market in narrowing the demand-supply gap and fostering the business of the developers in the market. Others (25%) use a long term loan supply to their own customers from a subsidiary real estate finance subsidiary entity or a combination of the above arrangements. Particularly, the Ayat Real estate S.C has its own real estate finance entity supplying long term loans to its customers. They are offering mortgage financing (50% financing for villas and 40% or 67% financing for apartments). And the other one uses a combination of the short term bank loans & cash basis.

The alternative method of in-house supply of long term loan, if possible, by the companies own resource will create an enhanced demand to their business and get them a competitive advantage over others. And the bilateral agreements, which is undertaken by two of the respondents with the CBB also improves the confidence of the bank as

guarantee is facilitated by the builder with regard to the collateral of title deed, this also supports both the buyer and seller too, as delays because of finance will be some what solved.

As the CBB is the only mortgage provider bank, a monopoly practice for many reasons is realized. In the large plots for real estate developments, developers to facilitate loan for their customers, are not willing to separately prepare title deeds from the large plot leased for developments. This is the reason for some of the delays in supplying mortgage by the bank, according to the loan officer in CBB. And it is clear that the short term other bank loans do not satisfy the need of home buyers as it requires big capital investment and needs long time period to service their debts.

3.4. ANALYSING THE HOUSING FINANCE IN THE REAL ESTATE ASSET MARKET

Housing loans are loans of a long-term nature provided for the construction of individual houses and business premises. The common practice is to provide housing loans to that section of the population that earns moderate to high incomes, provision of housing loans operates through specialized institutions (mortgage banks), and over a long-term.

The creation of a strong competitive primary (& if possible secondary) mortgage would mark an important step toward bridging the housing gap and enhancing the real estate market liquidity in Ethiopia, and also in A.A. Until now, the only long term housing loan or mortgage product supplier in the country is the state owned construction and business bank. And only very short term other bank loans up to 5 years at high interest rates are

available, for which the low to moderate income earners typically have difficulty gaining access to finance their purchase of housing units.

Housing finance is very insufficient, difficult, and expensive. As described in previous topics, the lending rates are high with short maturities. As to CBB currently they have 7.5-9.75% lending rates currently with maturities for long term loans ranging from 10 up to 30 years. And the 9.75 percent is the effective mortgage interest rate with 10 up to 30 years terms; which may be adjusted only based on saving (deposit) rate's change by the national bank of Ethiopia (NBE), which is stated in the contract. Beside, the minimum own contribution to secure the mortgage is 30-50% of construction costs or purchase value which is currently raised up to 50%, because of the highly increasing prices and in order to control default (and concentration) risk and also to allocate funds to increasing demands. Other bank's requirements are also increasingly modified and become more stringent for both reasons of minimizing risk and maximize the utilization of their funds in serving the ever increasing demand, according to the loan officer of CBB.

As an alternative real estate companies like Ayat for example have their *own subsidiary for real estate finance*. And that is a better way of handling customer needs and also boosting their sales. But it is clear that such service will require too much capital, but more attractive. At the same time even though they have relatively long term maturities fro their loans, the interest rate (13%) seems much expensive than the CBB's (9.75%) rate. Actually, Ayat is the first real estate development company followed by the international company called ropack. Ayat is believed to pass through the learning curve with the long period experience, and it has already transferred from PLC in to S.C to

attract much more capital. Such own real estate finance is only undertaken by this company out of the sampled respondents.

The other financing option that may boost the fund flow to this investment is the creation of the secondary mortgage markets. But this basically needs the essential considerations of the prerequisites for developing such markets. With a common fact that secondary markets or the mortgage backed securities (MBS) foster the liquidity of the real estate market by stimulating the flow of funds, however; when the nature of such securities and the extreme involvement of sub primes is realized; the final incidence will be like what we have witnessed recently: the credit crunch and then financial crisis which then affects not only the housing market but also the economy.

Even though, it is unthinkable to currently establish such market, the prerequisites for developing such markets like to have a thriving primary mortgage market among others, is nice to be considered.

The need to strengthen and expand the mortgage supply is inevitable. There may be buyers who can totally finance them selves in buying homes covering a small portion of total home buyers. But such financing is unthinkable by the low income earners and also by almost all middle income earners, and the mortgage financing is very desirable to them however, not with the current stringent requirements. Thus government and other development and finance agencies need to support in subsidizing the housing finance in our country.

Remarkably, there is rapid expansion of housing stock ongoing despite limited source of housing finance and the typical lending terms that are far less attractive. It is wonderful to see the different site of the real estate entities to witness the developments really. Required down payment (or own contribution), nearly about half of the purchase price exclude almost all of the house holds in A.A-leaving the market to the Ethiopian diasporas with better economic position and also their access to cheap loans in most countries of their residence.

3.5. FACTORS AFFECTING THE MARKET’S TRANSACTIONS AND OPERATIONS

3.5.1. Pattern of Sales by Sample Companies

Table 7 Sales Pattern

Patterns	Frequency	Percent
Selling from inventory	-----	-----
Post order construction	6	75.0
Both from inventory and after order	2	25.0
Others	-----	-----
Total	8	100.0

As depicted here, six of them (75%) stated that they are applying the post order construction and commonly down payment before starting their construction followed by installment payments at different stages. And only 2 (25%) of the respondents are using to sell from inventory plus the above pattern.

In real estate market, the investment and construction horizon is long, and quantum of investment required is high. Especially in a market where there is an inefficient construction techniques, with limited availability of raw materials, such as cement, steel and other imported construction items, lack of access to construction financing, which is typical to our market; the construction period is very long. According to discussion results with most, their construction period in their contract is 18 months (& above) and mostly not met because of different reasons, compared to an average period of 3 months in USA & china.

The capital tied-up is clear to severely affect their operations, though, capital appreciation may be expected; thus, selling from inventory may be is not best alternative, and the other way of post order construction & sale on an installment; may be is more manageable to the developers. Initially they register potential buyers (for a fee) and after receiving the down payment requirement (in which the minimum requirement ranges up to 40% of agreement value), and start construction of the houses. Subsequent installments are received on subsequent agreed stages of completion.

3.5.2. Delays in Transferring Title Deeds and Their Reasons

Table 8 assessment of delays in transferring title as per contracts

Q: Do you meet your deadlines to transfer title to buyers as per terms?		
Answers	Frequency	Percent
Yes always	2	25
Sometimes	2	25.0
Most of the time	4	50
Total	8	100.0

As indicated 6 (75%) had experienced delays in transferring ownership title of properties to their customers in some way. Some 25% of them indicated that they execute their contract to transfer title deeds only some times because of different reasons, but mainly because of delays for required installment payments by the customers. And the other 50% told that they had delays only some times that most of the time they met the terms. The rest 25% only state they do not had such delays.

It is known that such delays arise to customer discontent regardless where the bottle necks are from; and mainly if these are from companies' own difficulties, affecting their business. Thus, to care for such promises especially for those Diaspora clients who are convinced by the advancements around them, as they are main and major players in the market, is more than crucial. One of the biggest complaints we all hear from Diaspora and local homeowners and investors is that new houses are never completed within the

time frame that clients are promised. To see the main reasons for delays; the next summary is noticed from those suppliers and additional discussion results are included.

3.5.2.1. Reasons for Delays

Table 9 Reasons for Delays

Main reasons	Frequency	Percent
Raw material Unavailability	2	33.33
Bureaucracies around government offices	1	16.67
Company own reasons	-----	-----
Others	3	50.0
Total	6	100.0

The shortage of raw materials, like cement, steel, and other imported quality finishing materials, aggravated by the escalated prices was indicated as a main reason for their delays by two (33.3%) of the respondents out of those who told had delays in meeting their terms of title transfer. And only one said the red-tape around the government offices for legal concerns to be executed and other facilities they provide to. In fact, this reason was indicated by the others combined with other reasons also. And half (50%) of them reasoned their delays were from a combination of raw material unavailability, long bureaucracies of concerned government offices, and commonly the delays for required installment payments by customers on time (which most companies mainly depend for their finance from those installments). Especially for those already registered potential entrants, the delays from the government related duties and supports are stated as basic

bottle necks, as per the Ethiopian investment agency officer for investment support and supervision.

But these are not the only reasons. It can be inferred that the increasingly skyrocketing prices of housing construction materials, seriously affects purchasing power of customers; as all currently have an adjustable agreed prices in their contract based on a clear and objective inflation (and appreciation of foreign currencies for their imported items) trend on their inputs. The outdated construction techniques also are additional reasons. Those who, some how passed through the learning curve, like Ayat and mainly because of shortage and expensiveness of Raw materials are facing delays, that is why it seems they are researching to own a cement factory subsidiary according to the interview results of the CEO of Gojosuite (an agent for Ayat based in USA) with tadius magazine; so as to be less reliant on outside suppliers.

3.5.3. Maximum Capacity Utilization Constraints to Developers

Because of above and other constraints to be mentioned most are not making use of their optimal capacity for production, which in turn affect their profitability. Only, two (25%) told that they are currently operating at maximum capacity and its maximum capacity utilization is not constrained. But, most (75%) of them are now operating at below capacity, and this may indicate that those are having unutilized or idle resources in some manner, which is an additional cost incurred with no return for it.

Table 10 Maximum production capacity utilization assessment

Q: Is your current production making use of your maximum capacity?		
Response	Frequency	Percent
Yes	2	25.0
No	6	75.0
Total	8	100.0

The main reasons for under capacity operations include mainly the shortage of housing construction raw materials also their persistent escalating prices, especially for imported high quality finishing items; serious financing problems in the market, shortage of potential buyers, limited other resources like labor. But all (six) of the respondents who have unutilized capacity; underlined on the acute shortage of raw materials and potential customer affording to buy.

As it is indicated in above discussions, the major buyers in this market are the Ethiopian Diasporas and with the current situation of the economic crisis, there is a spiral downward demand from these customer groups. This decline in demand creates in an idle capacity by for the developers. Even though, some companies started to cut their working staff, they can not avoid their fixed costs, in which downsizing may not get them in complete cut of their additional costs emanated from idle resource. If the demand trend from the Ethiopian Diaspora persists, this damage may become heavier to these suppliers.

3.5.4. Cash and Other Sales Transactions

Total Cash sales in a form of advance payments (which the buyers get some discount up to 10%) or installment payments with no credit arrangements; by the self financed buyers, ranges on their average estimates from 30-80% indicated by only five of the samples, the other three do not respond for the question. It is not surprise this much portion of cash basis sales, because housing finance (or mortgage products) is almost nonexistent if not very stringent, mainly. And for credit terms involving different installments with the loan arranged from CBB for mortgage and other bank loans, is presented next.

According to results from the survey for the companies' sales agreement for payments and their sales arrangements, the following points can be summarized. The objective of this point is to asses the different ways of sales contracts in the market. And a separate presentation of the contracts used by the respondents is presented below:

1] 20% down payment, remaining 80% followed in 5 different stages until title deed transfer

2] 33% or 60% down payment, remaining 67% or 40% payable with in 8 up to 30 years long term loans. And cash basis.

3] 20% down payment, remaining 80% followed in 5 different stages until title deed transfer

4] 20% down payment, 30% installment payment and remaining 50% from bank loan. Or 20% down payment, and rest 80% installment payments.

5] 100% advance payment with 10% discount granted; 50% down payment and 50% mortgage arrangement; and a 5 times installment payment with in the construction period (18 months).

6] 15% down payment, 20%, and 15% installment payments; and the rest 50% financed from the bank.

7] 30-50% own contribution(s) including down payment, and remaining balance from mortgage financing.

8] 20% down payment, and 30%, 25%, 20% installment collections, and the retained 5% up on handover.

In all agreements a retained percentage from 5-10% of the agreed value is common until any imperfections from specification are corrected and hand over is made. In addition, all have the policy of allowing discounts for advance payments by self financing buyers. Uniquely, one has an in-house mortgage supply ranging from 8 up to 30 years to its customer, after securing a minimum own contribution of either 33% or 60% by buyers.

3.5.5. Market system and brokerage

The real estate brokerage business in Ethiopia is not as well developed as in other countries. Buyers and sellers rely on agents locally called “Delalas” for buying and selling homes. These are traditional agents with no formal education in real estate but who basically mediate between buyers and sellers. A great deal of negotiation is involved in buying homes. Asking prices can be as high as 50% more than the final sale prices. According to Ezega.com, a site which is the largest real estate portal in Ethiopia. A specific real estate education is not provided by any institution as to my knowledge, in which it is prominent and important in many nations including developing ones.

According to survey results, the following results are summarized, for the methods used to sell their products.

Table 11 Ways of marketing products in the real estate market

Ways of sales	Frequency	Percent
Through sales department	3	37.5
Through formal real estate brokers (Agents)	-----	-----
Through traditional brokers (‘Delalas’)	-----	-----
Through sales department & formal realtors	1	12.5
Through all of above methods	3	37.5
Others	1	12.5
Total	8	100.0

Accordingly, most use a combination of these selling methods and others. Only one has its own marketing and sales company. Three of them are using own sales department to market their products and one used to sell through formal realtors in addition to their own sales department. The rest are selling through a combination of all listed methods. And almost all have a foreign agent (especially in the US, and Europe) to market for the Ethiopian Diaspora.

With contemporary structures for marketing, there is no hustle and bustle for which there are transparencies and almost standard products and prices and negotiations and sales are only finalized with in half an hour or so. In addition, title transfers are not time consuming. But in case of the A.A real estate market, and as per the local 'Addis-Neger' news paper assessment, to sell a typical house priced in millions, will take more than 3 months; which is highly illiquid market. And above all, the lack of transparency and the common hustle and bustle from traditional brokers create an extended bargain and negotiations in price, in which the asking prices are pretty high than final price to be agreed as stated above.

The basic reasons, for extended and great deal of negotiations in the market as stated by respondents are summarized below:

Table 12Reasons for extended negotiations in real estate transactions

	Frequency	Percent
Absence of good information	-----	-----
Bureaucracies around government offices	1	12.5
Absence of modern market system in the sector	5	62.5
Others	2	25.0
Total	8	100.0

The absence of modern market system in the sector is highly mentioned (by 62.5% of sample) as main reason for the prevailing long negotiations leading the market to be more illiquid.

The modern markets have comprehensive transparent information about properties' features at full capacity, and mainly buyers and sellers are informed players, which avoids unnecessary negotiations taking long. And only one stated that the delays or red tapes of legal enforcements in relation with transactions are the causes of time taking bargains before sales are executed.

The rest indicated a combination of the stated reasons including the absence of good information as a main reason. The impact of such marketing is direct on efficiency of the market and also on its liquidity. The real estate market accommodates for more than seven (7) million people's employment in the United States, in its different operations. The market in here is also potentially rich to accommodate professional realtors and other operators and also to enhance the development of the market and its efficiency.

Especially, the brokerage in this market is currently dominated by the traditional ‘Delalas’; and the business is appealing even for professionals to enter and play their roles.

A question to verify whether these companies are suffering from lack of sufficient professional real estate agents or brokers; is summarized below.

Table 13 sufficiency of capable real estate brokers

	Frequency	Percent
Yes	2	25.0
No	6	75.0
Total	8	100.0

Majority of respondents agreed to the lack of contemporary real estate brokers, and only two (25%) feel that there are sufficient capable real estate agents in their market. However, as stated earlier, crucially the ‘dellalas’, play critical role in convincing both sellers and buyers to come to terms; but normally they do not help buyers in completing the legal paperwork needed to complete the transaction. This must be done by the buyer and seller themselves and may take several months. The transaction execution should not take months, if firms specialized to handle the brokerage are sufficiently available.

3.6. IMPACT OF ECONOMIC CRISIS, INFLATION AND THE FOREIGN EXCHANGE ON THE SECTOR

The global economic down turn was said as not affecting our economy seriously. This reality is now changing soon as we have witnessed to the horticulture market and other

export based sectors are affected. And the real estate market in Addis Ababa which is highly reliant on the Diaspora demand, Diasporas living in the highly affected economies; is also influenced.

The impact will be reviewed seeing the average Diaspora portion of these companies out of their total customers, and assessing any impact on their ongoing operations from existing buyers, and the demand trend of post down turn from potential buyers.

The average Diaspora client portion of these companies' ranges from a minimum of 65% up to the extreme of 95%, in which all, except one has indicated an above 75% portion of same customers. It is simple to see how much the demand side of this market is reliant on those groups of buyers alone. As discussed earlier the seriously unaffordable prices of housing units in the market restricts the participation of local demanders aggravated by the almost non existent, if not stringent requirements for mortgage financing, among others.

It is not only that developers are reliant for almost all of their buyers on Diasporas; but also that most of them have a major portion of these Diasporas are from the US and other economies which are severely affected by the economic down turn. According to Ezega's (January 12, 2009) press release, Sunshine real estate CEO stated the impact saying "Over 70% of our clients are from the Diaspora, 50% of whom are living in the United States, The real estate market has failed to secure new customers from the Diaspora because of the financial crises".

The survey result summary depicted the impact of the crisis on the developers from their existing customers.

Table 14 Impact of Crisis on settlements by existing Diaspora customers

Impacts stated	Delay in making payments	No significant defaults & delays yet	Other impacts	Total
Frequency	5	1	2	8
Percent	62.5	12.5	25	100

By Most (for 62.5%) of the respondents, the crisis impact with regard to ongoing contracts for installment settlements is the delays by the existing customers. And one stated that no significant delays and defaults are encountered. The rest has told a combination of effects including delays in payment and defaults currently encountered which also affect their operation financing. Normally, for such delays and defaults, there is a penalty imposed in all such contracts, which increases the cost. A breach of contract is also encountered by some after the financial crisis. Likewise, Ropack International Housing Project, a South Africa-based company engaged in real estate development in Ethiopia, is also unable to collect payments for some 360 residential houses it build over the last few years (Ezega.com). But a foreclosure of houses by bank of such buyers was not stated by the sample respondents yet, for which most allow extended payment mechanisms with an imposition of agreed penalties.

Such consequences have resulted in to stringent credit policies by the bank, like the increase in the limit of minimum own contributions required up to 50% (which is also

because of the increased value of houses now). But the crisis impact is not only on existing customers' payment, but also the developers are in difficult times of securing additional orders or new demand from the Diasporas then after. No surprise if the Diaspora kept back their hands in their pocket like all in those economies, till they do feel safe about the situation.

It was not possible to secure the quantitative figures of order (sales) trend before and after crisis from the Diaspora customers even in percentage, because such data is claimed to be classified. However, informally through discussions some told that there has been a very downward spiral in their sales since the melt down.

On the other hand current phenomenon of acute *foreign currency shortage* in reserve leading to expensive exchange rates for major currencies is another risk (problem) that can not be hedged. This effect escalated the prices of the imported construction materials in turn reflected on housing value. On the demanders' side, the increases in prices affect their affordability seriously. And because of the shortage, the developers and other traders with foreign purchase have to wait long in order to get the quota allocation of foreign currency (which is stated as insufficient allocation). Such delays also affect their operation creating delays, thus adding to project costs and affect profitability. Because of the unnecessary costs incurred for idle resources (including labor). In addition, companies told as they are limited from having wide range of choices for foreign acquisitions of materials (especially in securing Quality finishing items) to make.

3.7. CURRENT PRICE DETERMINANTS OF PROPERTIES OF SAMPLED Co.'s

There are fundamental factors in which price of residential houses is based. These include the land lease price, prices & costs for raw materials, labor, construction machineries, and other operational costs. House prices can also be affected by a combination of supply and demand factors, including economic factors. On the demand side for example, factors like, Economic Growth / Real income, Interest rates, Consumer confidence, Availability of Mortgage Finance, Demographic factors, Speculation, and Unemployment may affect the pricing of residential properties in the asset market. In a short run, the supply side of same market is fixed (the housing supply is fixed) because it takes time to build houses. Therefore in the short run demand affects prices more than supply.

Table 15 Main Pricing Factors currently on properties of companies

	Frequency	Percent
Raw material prices	1	12.5
Inflation	1	12.5
Project site (only)	----	----
Labor & power prices	----	----
Inflation & Current global economic crisis	6	75.0
Total	8	100.0

The above introduction is the basic fact for prices of houses. The above tabular summary of questionnaire result for factors affecting pricing is also to see the part of current situations of inflation and crisis. Most (based on current situations) indicated the factors of current situation are the main factors which affects prices to be high for those reasons. In fact, the inflation factor includes the prices of raw materials, labor and other resources.

And only inflation and the raw material prices separately are stated as main factors by 12.5% of sample each.

All factors stated have currently a direct impact on pushing prices up. The inflation sternness in some items resulted in more than doubled prices; a visible impact is on the price of cement in which cement price is doubled with in two years period from Br. 150 in to Br. 300 per quintal, now. Theoretically the decrease in demand, a consequence of the down turn is expected to push prices down as we know it in the principle of demand and supply.

In Addis Ababa, it can be argued that the existing acute shortage of housing may explain why house prices have risen much faster than inflation and earnings. However, in markets where the supply of housing increased (the US market up to 2008, for example) and therefore, the excess supply and falling demand may lead to a big fall in price (may also lead to crash of housing market). However, it is important to note that house prices can still fall, even if there is a shortage of supply. A shortage of supply just means prices will be on average higher. It doesn't mean they are incapable of falling.

The shortage in supply of housing units in Addis Ababa is because the backlog of demand in years and also the insufficient current supply by both the administration and the private real estate developers. Main reasons for the insufficient supply was inquired to respondents and most told that there are small number of developers in the supply side of the asset market and also small number of potential affording buyers, in that effective demand is less. In other words the favorable demographic feature is not supported by a

favorable house hold income growth. The affordability of houses is affected by escalating prices is further affected to restrain the effective demand and also supply as a result.

The scarcity of land supplies by the administration (especially in getting large plots of lands, which are economical and manageable for development); was indicated as hindrance not to foster the supply as needed. The more the stringent the restrictions (with regard to land regulations), the less is the housing market is able to respond to increased demand, and when residential land is very difficult to come by, housing becomes unaffordable. In addition, as a result of increased demand for land lease, in (and around) Addis Ababa, lease prices are now very expensive. This effect mainly restricts the thousands of registered potential entrants according to the investment agency office for support and supervision of investments projects.

The extended period of construction because of low technological advancement slows the possible production by active builders. The other reasons stated include the absence of strong housing finance market to stimulate the demand and also supply. An organized effort by all (Government, developers, banks, housing concerned NGOs and others) to bridge the gap and enhance the demand side would generally improve the market and the economy.

3.8. SECONDARY DATA ANALYSIS ON INVESTMENT TRENDS IN THE SECTOR

Using the current Ethiopian investment agency data (secondary data) about the real estate development, the trend of real estate investment in three phases of *pre implementation*, *implementation*, and *operation* is analyzed and inferences derived next.

To see the total current investment aggregate status in Addis Ababa, the following summary is derived:

Table 16 Real estate investment status (aggregate figures) in Addis Ababa in 3-phases

	Gross figures by phases (1984-2001 E.C)			Grand
	Operation	Implementation	Pre-implementation	Total
No. of Projects	71	129	2,293	2,493
Registered capital (ETB in 000)	2,352,077	2,445,365	48,641,318	53,438,760
Permanent employment	4,860	3,189	166,648	174,697
Temporary Employment	1,888	3,128	159,849	164,865

Source: Ethiopian Investment Agency

The total number of currently operating (operational) real estate operators in Addis Ababa is seventy one (71) and the employment opportunities is 4,860 permanent and 1888 for temporary employees. The total registered capital by all is Br. 2,352,077,000. In the implementation stage there are 129 projects having some start-up on the ground. With

in this stage there is potential capital of Br. 2,445,365,000 in the stream and an opportunity for permanent and temporary employment of 3,189 & 3,128 respectively.

The number in the pre-implementation phase is 2,293 which is an aggregate from 1984 E.C up to now. This number has a potential to endorse a capital of Br.48.6 billion and an employment opportunity for about 226,500 totals of both permanent and temporary employees. The existing market's capital would reach up to 53,438,760 birr (from br. 2,352,077,000 billion) and the employment potential to 339,000 from the existing 6,748 employments (for both permanent & temporary employees).

The legal entry requirements (for being licensed) are not difficult, but after being licensed there are many operation requirements that are creating delays. The main reasons for this huge gap of operational and non operational entities include; the slow and limited supply of land, the absence of infrastructure facility in the expansion areas for those in implementation phase, the difficulty to access financing, the escalating cost and insufficiency of housing construction raw materials, less incentives among others. From the figures, there is a high concentration of real estate investment request in A.A compared to other states in the country; thus, there is excessive demand for land may create a shortage and to increased lease price of land.

With regard to incentive, there is no special for real estate development, duty free import of construction materials privilege is given to construction companies. Addis Ababa Administration the first regional government to follow the federal lead in passing urban land lease regulation in 1994. Lands under 73 square meters are free of lease charge and

plots between 73 and 175 square meters are leased out at Birr 0.50 per square meter per year. While above 175 square meter land shall be acquired the whole leasehold by public tender rate payable over a 99-year. Those who want to involve in the real estate sector are allowed 60 years terms while for other ventures varies from 50 to 90 years (Tarekegn Assefa, 2004).

According to Tarekegn also, "...In another development, during the past seven years most of the investors who have been engaged in various development activities reiterated of problems encountered in the implementation process of the lease policy. These problems can be categorized as *policy, legal, coordination and implementation*. The high price for lease plots, unfavorable lease money disbursement, poor or lack of infrastructure, administrative problems as well as red tape and absence of transparency in determining lease price were among the major problems that slowed down investor's progress."

The market's supply side would have been very strong and competitive, if the entry of those non-operational licensed entities comes true with good support and supervision by the agency. The entry of those in the implementation and pre-implementation in to the market can reduce the huge gap between demand and supply and also would enhance housing affordability in the A.A market. On the other hand the economic and social benefits and contributions forgone can be considered. To bring the outstanding registered capital of more than 51 billion birr (in the stream) in to play, would contribute material part to the economy and also to the employment creation.

The percentage contribution to growth from construction in general to GDP rose from 3.3% in 1994/95 to 7.2% in 2004/05 and from 6.8% in 1994/95 to 10.1% for real estate in particular in 2004/05. The above contribution would be more than doubled with the anticipated operation of those behind operation phase.

The chronic problem of the market is the almost non existent mortgage financing (long term housing financing).

The shortage of raw materials, like cement, steel, and other imported quality finishing materials, aggravated by the escalated prices was indicated as a main reason for their delays by two (33.3%) of the respondents out of those who told had delays in meeting their terms of title transfer. And only one said the red-tape around the government offices for legal concerns to be executed and other facilities they provide to. In fact, this reason was indicated by the others combined with other reasons also. And half (50%) of them reasoned their delays were from a combination of raw material unavailability, long bureaucracies of concerned government offices, and commonly the delays for required installment payments by customers on time (which most companies mainly depend for their finance from those installments). Especially for those already registered potential entrants, the delays from the government related duties and supports are stated as basic bottle necks, as per the Ethiopian investment agency officer for investment support and supervision.

But these are not the only reasons. It can be inferred that the increasingly skyrocketing prices of housing construction materials, seriously affects purchasing power of

customers; as all currently have an adjustable agreed prices in their contract based on a clear and objective inflation (and appreciation of foreign currencies for their imported items) trend on their inputs. The outdated construction techniques also are additional reasons. Those who, some how passed through the learning curve, like Ayat and mainly because of shortage and expensiveness of Raw materials are facing delays, that is why it seems they are researching to own a cement factory subsidiary according to the interview results of the CEO of Gojosuite (an agent for Ayat based in USA) with tadius magazine; so as to be less reliant on outside suppliers.

CHAPTER FOUR

CONCLUSIONS AND RECOMMENDATIONS

This chapter tried to summarize the outcomes of the study or findings and to provide possible solutions or recommendations in order to solve the problems. The first section of this chapter is dedicated to the conclusion part and based on these summarized findings recommendations are given last.

4.1. CONCLUSIONS

Generally, as the objective of the study is to find the factors affecting the real estate market in Addis Ababa; thus, the factors, challenges and problems of the market are concluded next. The factors that affect the market generally arises from the real estate companies them selves, from the demand side, the financing, from the government side, and current economic situations mainly.

Real estate companies have no involvements in the real estate space market; all provide residential properties in the Asset market. Most have an exclusive focus on the supply of luxurious if not very expensive housing in which this segment is very thin for which majority of the suppliers relied on. Almost all middle income levels do not fit to this segment and that is why it remained a market for the Diaspora. And this excessive reliance on those groups may seriously affect its prospect. How ever, there is acute Shortage of residential building especially for low-income households that account for over 80 percent of the city's population. And this demand is not yet the target of the companies because of different reasons.

Housing affordability in this market (Real estate Asset market) is very low that can be rated as “severely unaffordable” market (using the international standard of Demographia International) and house holds choose to rent instead of buying. Only small portion of the dwellers of Addis Ababa mainly those in the high income levels and Diasporas remained the buyers in the real estate asset market. Because of this the market is very thin (& illiquid). With a combination of reasons, and trends indicated above, it will be difficult for the market’s prospect to prosper.

The market is at its grass root level and not yet reached maturity. It is not competitive and efficient market. The advantages of operating economies of scale that may be achieved by developers in such markets are least probable to be transferred from the builders to buyers, because of this. The absence of competition (& efficiency), and lack of contemporary real estate market, may hinder transparency and access to “real” time market information. As a result, the bargaining power of the buyers become weak and price setting power fully rest on the seller’s hand, which also affects the affordability of those buyers.

Real estate sector in Addis Ababa was on upturn in the recent periods. The main growth thrust is due to favorable demographics, and increased demand from the Ethiopian Diaspora, in which prices were raised highly. How ever, the local demand side is not enhanced by increasing purchasing power.

The Limited sources of mortgage financing and typical lending terms that are far less attractive to home buyers are other factors affecting the sector. Required down payments,

usually about half of the home's purchase price, excluded many households from the market. The other factors are the non existence of customer friendly banks & housing finance companies.

Lack of competitive and sufficient mortgage market affects the affordability of properties which also restricts the potential demands and market remains very thin and illiquid. The state owned Construction and Business Bank (CBB), being the only supplier of mortgage has very stringent requirements and insufficient supply of its loan to the market. Market participants do not have any choice for long term loan. That is why the cash sales seem usual pattern with those very few buyers who can finance them selves in some way. Today's lending rates are high but maturities are very short. Overall, only a tiny portion of house holds in A.A would be in apposition to access the bank credit under existing housing and loan regulations.

The existing inadequate supply of mortgage is also affected by the increase in costs of houses. Minimum own requirements are now raised up to 50%. The mortgage facility is also affected by both the real estate companies' support (to facilitate the collateralization process), and the buyers' capacity and transparency with the bank.

The sales pattern in the real estate market mainly has an installment basis; payments are made at different phases while the houses have been built for the buyers. Sales from inventory are not common in the market (by sample companies).

The market is constrained by inefficient construction techniques, with limited availability of raw materials, such as cement, steel and other imported construction items, lack of

access to construction financing; and by an extended construction periods. Because of these common problems, delays in transferring ownership of properties by developers are very common. The reasons for the delays arise from the side of buyers, developers, red tapes around government offices, or a combination there of.

The companies in the market are constrained not to utilize their optimum capacity, for the main reasons of limited availability of raw materials, and shortage of potential affording buyers currently.

The real estate brokerage business is not as well developed as in other countries. In the market, there are no sufficient capable real estate brokerage firms. Buyers and sellers rely on agents locally called “Delalas” for buying and selling homes. These are traditional agents with no formal education in real estate but who basically mediate between buyers and sellers. A great deal of negotiation is involved in buying homes. Professionalism in many areas of the market is not achieved. A specific real estate education is not provided by any institution as to my knowledge, in which it is prominent and important in many nations including developing ones.

Absence of real time market information to buyers and sellers, bureaucracies around government offices, and generally the lack of modern real estate market system affect the transactions to be slow and negotiations to take months.

The market is highly reliant on one group of customers, the Ethiopian Diaspora which accounts from 75-95% of average client portion indicted by sample units. And the current Global economic downturn seriously affected these groups which in turn affects the local

market of Real estate. It is not only that developers are reliant for almost all of their buyers on Diasporas; but also that most of them have a major portion of these Diasporas are from the US and other economies which are severely affected by the economic downturn.

The real estate market has failed to secure new customers from the Diaspora because of the financial crises. Existing operations of these companies are also affected by delayed (and also some defaults) installment settlements from the outstanding contracts with those Groups. Such indications also signaled the bank to reconsider its credit requirements (policies).

The current phenomenon of acute *foreign currency shortage* in reserve leading to expensive exchange rates for major currencies is another risk (problem) that can not be hedged. This effect escalated the prices of the imported construction materials and the same is reflected on housing value. On the demanders' side, the increases in prices affect their affordability seriously.

Because of the shortage, the developers and other traders with foreign purchase have to wait long in order to get the quota allocation of foreign currency (which is stated as insufficient allocation). Such delays also affect their operations creating delays, thus adding to project costs and affect profitability; because of the unnecessary costs incurred for idle resources (including labor). In addition, companies suffered, as they are limited from having wide range of choices for foreign acquisitions of materials (especially in securing Quality finishing items) to make.

Prices of the residential properties are highly increasing for a combination of different reasons. One factor is the above stated inflation factor. There is high concentration of (active & potential) investors in Addis Ababa that pushes the prices of lease up highly.

The escalating prices of housing construction materials affects not only for new orders to come, but for the existing contracts (because all have adjustable contract prices based on justifiable raw material costs) which affects the ability to pay remaining installment payments and creates delays or defaults on settlement in which the builders relied up on, for their finance.

The shortage in supply of housing units in Addis Ababa is because the backlog of demand in years and also the insufficient current supply. A main reason for the insufficient supply was that there are small number of developers in the supply side of the asset market and also small number of potential affording buyers.

The slow & inadequate supply of land by the city administration (especially in getting large plots of lands, which are economical and manageable for development); was indicated as hindrance not to foster the supply as needed. In addition, as a result of increased demand for land lease, in (and around) Addis Ababa, lease prices are now very expensive. This effect mainly restricts the thousands of licensed potential entrants. The other reasons stated include the absence of strong housing finance market to stimulate the demand and also supply.

There is huge gap in number between the operational and non operational entities, in which only 71 are operational out of a total 2493 licensed entities. The main reasons for

such a gap; are because of the slow and limited supply of land, the absence of infrastructure facility in the expansion areas for those in implementation phase, the difficulty to access financing, the escalating cost and insufficiency of housing construction raw materials; and less incentives among others.

4.2. RECOMMENDATIONS

In this section, possible solutions or remedies in order to solve or reduce some problems are proposed.

- Most importantly, much should be done on the demand side to enable house holds buying housing. Mechanisms to enhance or increase the borrowing capacity of buyers are mostly needed. The favorable demographic feature in Addis which increases the need (underlying demand) for housing is not supported by an ability to afford buying, under current trends.
- This required the government and other related development agencies to subsidize the housing loans, and with better credit facilities to improve affordability and make the market relatively liquid.
- Policy needs to focus on increasing the supply of housing - particularly low-cost housing - and reducing the time taken to bring land and housing to market.
- The provision of low cost house by these developers may stimulate the demand of many, rather than the current excessive focus on the very expensive housing supply in the market. So it is advisable if these companies should think of supplying less complex homes that can be affordable by many.

- The development of customer friendly banks & housing finance companies, professionalism in real estate and a revised favorable reforms initiated by the government to attract global investors, are required.
- Establishment of Specialized financial institutions with dedicated funds for housing development is the need of the hour. The government, through the National Bank (or the CBB), Should create such a dedicated fund for the development of housing market in the country.
- In order to solve the inadequacy and excessive reliance on foreign suppliers of Raw materials, the development and expansion of mega (and many) plants for the production of housing construction materials, has a two side economic benefits. Currently there is faire start-up to erect cement production in progress, glass factory. Such expansions will positively affect the supply and save a foreign currency for import.
- The slow and inadequate supply of land in the city should be improved to facilitate the entry of the licensed potential suppliers which in turn enhance the competition and efficiency in the market. As more serviced plots of land become available to meet demand, the prevailing high price of land might decline and create suitable conditions for increased supply of buildings and in the long run the existing high price (sale/rent) of buildings, may possibly decline.
- The real estate brokerage business should be strengthened through the involvement of professional firms. And it seems a vacant or unexploited area for business graduates. The transaction execution should not take months, if firms specialized to

handle the brokerage are sufficiently available. Institutions should also contribute to professionalism in the sector particularly.

- Further more, it is clear that the housing front is most vital for national economy and human settlement which concerns all and hence deserve orchestrated and dedicated efforts from the government through its various organizations, and many others stake holders including the real estate developers.

REFERENCES

- Bodie, Z., et al., 2004. *Essentials of Investment*, 5th edition Mc-Graw Hill/Irwin Series
- Charles, Marcus T., 2006. *Real estate principles*, 7th edn, ,Irwin/McGraw-Hill, Boston
- Creswell, John W., 2003. *Research Design: Qualitative, Quantitative and Mixed Method Approaches*, 2nd edition, Sage Publication INC., Thousand Oaks, California
- Cooper, Pamela S. 2006. *Business Research Methods*, eighth edition, New Delhi/TATA McGraw-Hill edition
- Elham, M., 2008. Literature review on housing affordability for auburn council. [e-journal] 42 (6). Abstract only. Available at:
http://www.sheltersw.infoxchange.net.au/docs/rpt03land_sb.pdf
- Tomlinson, M.R., 2006. A literature review on housing finance development in sub-saharan Africa. Commissioned by FINMark Trust.
- Tarekegn, A., 2004. Urban development and housing for low-income groups in Ethiopia. *RICS Foundation*, pp.1-31
- Tesfaye, A., 2007. Problems and Prospects of Housing Development in Ethiopia. *Property Management*, 163 (3), PP. 39-46.
- Tesfaye, A., 2008. Impediments to the Development of the Real Estate sector in Ethiopia. *Journal of African Real Estate Research*, 01 (1), January 1, pp. 1-17.

- William, Jeffrey D., 2004. *Real estate Finance and investments*. 11th ed. McGraw-Hill, Boston
- Amrote, 2008. Prospects and challenges of Real estate investment in Addis Ababa. AAU, 2008
- UN-HABITAT, 2007. Situational analysis of informal settlements in Addis Ababa, Nairobi, 2007.

Internet Sites:

- <http://www.ahp.hhsweb.com/kraut/590Fall2001/...%5C590Fall2001%5C4thLectureResearchDesign.ppt> Checked on Dec. 2, 2008
- www.accommodationtimes.com checked on April 20, 2009
- http://en.wikipedia.org/wiki/real_estate Accessed April 23, 2009
- <http://www.accommodationtimes.com/AT/Research/Studentprojects/Studentprojectslist.asp> checked on April 20, 2009
- www.realestateabc.com checked on Oct. 2008
- <http://www.realtor.com/Basics/AllAbout/MortFinance/Index.asp>
- http://www.shelternsw.infoxchange.net.au/docs/rpt03land_sb.pdf Viewed on: January 2008
- <http://www.Ezega.com> checked on Feb.15, 2009

APPENDIX

I) Research Questionnaire

The purpose of this questionnaire is to obtain data for a research project conducted by Ato Kiros Aquubamicheal, on the topic “*Factors Affecting the Real Estate Market (a case of Addis Ababa)*”, in partial fulfillment of the requirements for the award of an MSc Degree.

The major objective of the study is to investigate main factors currently affecting the industry (the business) and the market.

Your cooperation in filling out the questionnaire carefully and genuinely, therefore will not only contribute towards reasonable output in the study but also it is a decisive contribution in responding to and getting ride off the fundamental and deep rooted real estate market and the real estate business problems in Addis Ababa.

The researcher, in this regard, assure you that it is not a test of your ability; and all the information you provide will be confidential & is to be used only for research purpose.

Thank you!

NB: PLEASE NOTE THAT YOU CAN CHOSE MORE THAN ONE ALTERNATIVE GIVEN IF important. AND USE A TICK MARK (√) IN THE BOX(ES) YOU SELECT!!!

Part-I General information

1. CompanyName_____
 2. Location of Real Estate Co. sub city_____
 3. Location of Real Estate Site (s)_____
 4. Date of Establishment & Date of operation (_____,_____)
 5. Type of Real Estate Operation
 - Residential properties
 - Income Properties
 - Both residential & income properties development
 - Raw land development
- If Others, Please specify_____

Part-II Questions designed to know the factors affecting the real estate market generally AND to determine (address) the housing finance arrangements, the real estate market development trend, and the factors affecting its liquidity; the impact of current economic crisis, and others.

6. What customer class (In terms of income level) do you focus?

- Higher classes (Luxurious type)
- Middle Income level
- Lower Income level
- All classes
- Both higher & Middle Income levels

7. What do you think about affordability of your properties (Houses), By income categories

	<u>High Income</u>	<u>Middle</u>	<u>Lower</u>
Highly affordable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fairly affordable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Not affordable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. What possible Financing Methods Do you arrange to your customers:

- Only cash basis agreement
- Mortgage financing with bank
- Other Bank loans
- No financing arrangement

9. What pattern(s) of Sales do you follow?

- Selling from Inventory
- Post order construction

Other, please specify _____

10. If you Receive orders before completion of construction Do you meet (execute your orders) your Dead Lines or execute orders as per terms?

- Yes always

- Some times
- most of the time

11. If you had delays in transferring title to your buyers, what do you think are the main reasons?

- Raw material in availability
- bureaucracies around offices of the government
- Company inefficiency & ineffectiveness

If others, please specify _____

12. How much percentage (%) Does your cash sales account from your total sales

13. Would you please state the different type of sales arrangements (& terms) you use with your clients.

14. How do you Market your properties?

- Through sales department of Co.
- Through formal Real Estate Agents only
- Through informal broker (Dellala) only
- Through formal & Informal brokers

If others, please specify _____

15. What basic reasons do take the negotiations in the real estate market (sales), very long?

- absence of good information
- Bureaucracies around government offices
- In availability of modern market system in the sector

Others, please specify _____

16. Do you think there are sufficient capable (& modern) real estate agents locally

- Yes
- No

17. Do you think the existing supply in Raw materials is sufficient to satisfy demands?

- Yes
- No

18. What specific inputs (raw materials) are mostly insufficient?

19. For your imported materials, how does the shortage and appreciation in major foreign currencies affect your business (operation, cost, price of properties....), currently? (Please describe!!!)

20. Is the Legal Entry requirement to the market, & competition Requirements very difficult (is entry to the market difficult)?

- Yes
 No

21. Number of orders (or your sales to) from the Ethiopian Diaspora in the following years:

2004	2005	2006	2007	2008

22. If you have material part of Diaspora clients, what effect does the Global financial & (economic) crisis have on your existing client to make settlement on their unpaid balances?

- Delay in making payments
 Default in making payments
 Breach of contract by Diaspora clients
 Foreclosures started for the houses they own on partial loan
 There was no material defaults & Delays
 Other impacts, Please specify _____

23. What factors do you think fundamentally affect price of your properties?

- Raw material prices
 Site of your Real Estate
 Information
 Inflation
 Labor prices
 power prices

24. What are the possible reasons for Residential housing supply shortage in Addis Ababa

25. Is your current production making use of your Maximum Capacity?

Yes No

26. If Not, What are the reasons not to achieve (Utilize) your optimal production?

27. How many types of houses do you supply to the market (please make a list of the product types)

S.No.	property type (Name)