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THE FINANCE OF HOUSING IN THE PUBLIC AND PRIVATE SECTORS

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TABLE OF CONTENTS

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Preamble

1. This paper aims to establish some kind of baseline on the sources and characteristics of housing finance in the public and private sectors of the economy. In terms of housing finance the coverage is intended to be fairly extensive, although most of the empirical examples will unfortunately be limited largely to the three East African countries with which the writer is most familiar. Other material will be incorporated where possible, but this is limited largely to current literature, where much of the information is likely to be dated. (1) It is to be expected that where general economic, social and political background is the more shared that there will be fewer divergences from any given pattern of housing finance practices and institutions. In this sense a major difference in existing characteristics is likely to be found between the ex-colonies of France vis a vis those of the United Kingdom.

2. The discussion falls under four headings. The introductory section will set out some of the principles of housing finance in the light of the market characteristics of the commodity (i.e. accommodation). There will follow two sections dealing with the private and public sectors respectively. The concluding section deals briefly with the housing sector in relation to development planning.

Introduction

3. Housing markets in Africa are notably dualistic in character. Housing supply tends to be either in a "traditional" or "modern" sub-market. This dualism is marked in both the costs and techniques of construction. In the "traditional" sector the mode of building is based on the mud and wattle structure, modified to a greater or lesser extent to fit in with rural or urban environment. In the "modern" sector the standards set are generally equivalent to those of the ex-colonial power, with building regulations and town-planning criteria borrowed wholesale, with little or no modification, from the advanced, industrial, high-income countries. By their nature the "modern" sector is predominantly urban, and the "traditional" sector peri-urban and rural.

1/ Prepared by Mr. M. Tribe, Economics Department, Makerere University College, Kampala, Uganda. The views expressed in this document are not necessarily those of the secretariat of the Commission.

2/ Figures in brackets refer to Annex III on Bibliography.

4. Since the greatest proportion of the population of Africa are living in a rural, agricultural, environment,(2) mainly based on peasant small-holdings, most housing is in the private sector, but in the peri-urban and urban centres private residential development is still usually a larger sector than public housing. In some countries, particularly those with considerable external investment in extractive and processing industries, employers provide their workers with housing which is tied to the employment. Among the higher income groups the housing which is provided by employers is frequently heavily subsidised, or large housing allowances are given in addition to the basic salaries. In this latter respect the pace is generally set by Government continuation of terms of service(3) created for an expatriate civil service in the colonial period. This phenomenon has been removed from some African countries but in others it continues to have a major influence on the housing market and on the level of real salaries rather than basic money salaries among high level manpower.

5. The social and economic framework of countries that are basically agricultural and have low per capita income means that much of the demand for housing accommodation in the growing urban agglomerations is for rental rather than owner-occupier dwellings.(4) Since the only means for most of the population to ensure security after retirement from the wage/salary, predominantly urban, labour force is to return to the rural areas, there will be pressure for any personal housing investment to be in rural rather than urban areas, at least as a first priority. This characteristic of the African housing market can certainly be expected to change as development is likely to lead to more long-terms urban settlement on the individual "family" basis, and as social security schemes are introduced. However, in the short- and medium- term periods it is clear that a demand for rental rather than owner-occupier dwellings would affect the optimum structure and activities of housing finance institutions. If a part of Government housing policy were to be stimulation of demand for owner-occupation of dwellings, then institutions lending money for only this type of dwelling, in the context of social and economic characteristics which imply mainly rental demand, are unlikely to have considerable success in urban areas.

6. The discussion in the above paragraphs is intended to show that not only is the present, and future, shape of the housing markets an important determinant of the types of financial institutions appropriate in African countries, but also that the demand for different types of housing finance is likely, a priori, to vary between different sub-sectors of the aggregate housing market, quite apart

from the dichotomy between the private and public housing sectors. This implies that the wholesale importation of housing finance institutions from urbanized industrial economies is likely to have limited relevance to the improvement of housing conditions in rural, agricultural countries. The remainder of this first section will concentrate on economic aspects of housing which have an important bearing on housing finance.

7. Dwellings generally represent a significant proportion of a nation's annual capital formation, and therefore an important claim on the available economic resources. Two studies in the early 1950's, based on fairly conservative estimates, showed that the "traditional" style house construction accounted for about 4 per cent of Gross Domestic Product in Nigeria and (then) Tanganyika. (5) A recent estimate for National Income series in Kenya indicates that building and construction in the nonmonetary sector contributes 2 per cent of GDP currently. (6) Unless house construction is entirely carried out in the non-monetary sector, which is becoming increasingly rare in Africa, the expenditure on materials and labour represented by a completed dwelling requires financing. Since housing is a particularly durable form of consumer good, the consumption of the goods and services put into construction takes place over a fairly considerably number of years.

8. In general, this gap between current consumption of housing services and the capital cost of construction can be met either by loan finance by owner-occupiers, or by the occupant hiring accommodation from a landlord. In the latter case, the long-term financing problem is effectively handed over to a second party who may be in the public or the private sector. Housing as an economic commodity can thus be described as immobile and indivisible through space and through time. The alternative to owner-occupying such a specific capital asset is that of hiring from an owner on a short-term basis. This is the theoretical basis of the division between the owner-occupier and rental sub-markets.

9. The proportion of income that people are prepared to spend currently on accommodation is a question which can only be answered by observation of expenditure patterns. These generally reveal a wide divergence of individual spending habits.1/ During the period of repayment of a loan owner-occupiers may be expected to spend a greater proportion of their current income on housing compared with renters for two reasons. First, the house

1/ In a technical sense the standard deviation of the mean of a frequency distribution will be high relative to the mean. The average proportion spent has therefore to be viewed in conjunction with the range of proportions. See Bloomberg and Abrams para 94. (7)

purchaser is paying for current consumption of an asset that he is buying, and saving at the same time. Second, real estate generally represents a real 'hedge' against inflation, since the market money value of dwellings in a free market or mixed economy can be expected to appreciate at a rate which at least keeps pace with inflation. In African countries, dwellings can only really be regarded as marketable in, and in the vicinity of, towns. Evidence suggests that renters are generally prepared to spend something in the region of 10-20 per cent of current income on rents when the market taken is a private, uncontrolled, unsubsidised market.(8) Owner-occupiers might then be expected to pay 5-10 per cent out of current income over and above this.

10. In general, however, a high proportion of income spent on housing clearly leaves a small proportion for other essential household expenditure, and at the low levels of income that predominate in African countries it also leaves a low absolute amount of income for other necessities. In addition, if the largest area of consumption of necessities at low-income levels is on foodstuffs, then since food prices tend to be unstable, a high proportion of income spent on housing may leave insufficient margin for these price fluctuations if housing payments have to be made regularly. This means that housing expenditure may be expected to rise only with income in the long-run, and not through higher proportions of expenditure in the individual household in the short-run.

11. Two approaches to rent determination can be distinguished, related respectively to market rents fixed by direct forces of demand for and supply of accommodation, and cost-based rents, which will reflect market forces in as much as factor prices reflect the demands put upon them in a market economy. It is on the former that rent control measures are taken if it is felt that the market rent gives too high a margin of surplus to the private landlord over and above the cost-based rents. In turn cost-based rents may be based on the historical construction costs or on the replacement costs.1/

12. The elements in the cost of a dwelling will be made up of the following: capital costs of the land and the building, which are themselves divided between principal and interest costs; the cost of maintenance, which will not be a stable function of construction costs for any one dwelling over its complete life; the recurrent costs of services provided to the site which may be charged through some kind of property tax which cannot be avoided once the building is

1/ For any given dwelling the latter would normally be higher than the former in money terms because of inflation and the steadily rising standard of accommodation (particularly in the quality of facilities) over the life of a dwelling which may last 25-50 years or more, dependent on construction standards and efficiency of maintenance.

complete. Depending on the relationship between these different cost components, the total cost of the dwelling may be established, and a fixed proportion of capital costs may be charged as the rent for a given period. It has been suggested that 12½ per cent, of capital cost might be a reasonable standard to take as an annual rent.(9) If the construction cost can be reduced to a monthly rent, and the proportion of income that is spent on rent, or housing, can be expressed as some average level, then the cost and rent structure of the housing stock will be a function of the level and distribution of income in the economy being considered.

13. Housing subsidies are, in theory, a provision to fill a gap between effective demand represented by people's ability and willingness to pay for accommodation, and the costs of providing the type of accommodation which is deemed to fulfil certain standards. (See Chapter 8 of Bloomberg and Abrams referred to above). The need for subsidies may be said to exist if the costs of providing acceptable standards of accommodation get out of step with the available economic resources that would freely be spent on housing, and/or if the distribution of income in the economy is such that the higher income groups' standards of accommodation give an upward pull on lower income groups' standards, necessitating some kind of income redistribution through subsidies. Thus if the rent of the lowest cost type of accommodation is higher than the expenditure patterns of the lowest income groups can afford, then the rent paid by the tenants is effectively "topped-up" by a subsidy to cover the full-cost. In the African context it will be clear that subsidies may be implicit or explicit (i.e. hidden or open), and may in fact be used to distribute income in any direction that policy requires, given sufficient means of operating them. Thus a subsidy system would be very difficult to operate in a totally free market system except through, for example, tax concessions to private landlords - the greater the proportion of accommodation in the public sector the easier subsidies are likely to be to operate. It should be stressed that subsidies constitute a part of current consumption, a type of transfer payment, and may be the more difficult to justify where a major policy aim is the achievement of high rates of saving and investment.

14. This final point makes it clear that housing must be seen in the light of the overall development of an economy (see Section IV below). Thus, in the short-run to increase the amount of resources, recurrent and non-recurrent, devoted to housing implies reducing the resources in some other sector of the economy. The discussion of financial aspects of housing is therefore largely around increasing the efficiency of allocation of resources to the housing activities, and their distribution within these activities. Thus, redesign, or

introduction of new, financial institutions may open up choices to people who were previously not able to achieve desired housing improvement due to financial obstacles. It may therefore be that more appropriate housing financial institutions may increase an economy's savings ratio and reduce "inessential" expenditure. It is the case in any event that any change in the proportion of a country's resources flowing into housing inevitably reduces the availability of resources elsewhere. If, for example, it is desired to increase the flow of resources into low-income group housing, it is inappropriate to design institutions which encourage investment in high-income group housing since these two types of accommodation are not substitutes.

15. The greater part of the remainder of this paper will therefore be taken up with a discussion of the financial aspects of housing in the private and public sectors, with particular emphasis on the sources of capital finance.

The Private Sector

16. A large proportion of the resources used in private sector housing in Africa do not enter the monetary economy. Some countries include this real investment, and real income, in their National Income estimates - others do not. However, this sector is not necessarily clearly divided between monetary and non-monetary resources, but there is a considerable overlap. Thus an existing dwelling may be improved by the purchase of windows or cement. A newly built dwelling may constitute the use of corrugated iron sheeting for the roof, cement floor and wall-facing etc., but have been constructed using mainly family labour. When discussing existing financial institutions it has therefore to be clear whether they provide finance for only "traditional" or "modern" sectors, or for both. Most of the discussion will not distinguish between finance for owner-occupation and for rental dwellings.

17. Capital finance falls into two areas, that of short-term building loans, and that of long-term finance usually of a mortgage nature — that is to say that the house itself serves as security for the loan.1/ It is in the latter that we shall be most interested. The size of required loans will depend to some extent on the institutional environment. Thus, building regulations, land premium and building covenants (minimum investment amount rules) may make the amount of capital necessary to build any dwelling higher than might otherwise be the case. These types of regulations have frequently been adopted in a rigid form from the ex-colonial powers, and would be considered outdated and inadequate in their country of origin. Outside the urban administered areas, town planning and building regulations are either non-existent or more frequently broken than observed.

1/ In many parts of Africa the extent to which a dwelling may constitute collateral on a loan will be limited by local land tenure conditions — it is not proposed to discuss this aspect of the problem here, but see E/CN.14/HOU/27 on mortgage securities in Africa.

18. In the private sector the sources of finance have been split into seven groups:

a) commercial banks

b) building societies

c) insurance companies

d) co-operatives and housing associations

e) employers

f) suppliers' credit

g) saving in kind

19. Commercial banks are generally concerned with short-term or medium term finance of trade and commerce rather than in the long-term finance that housing construction requires. At least one commercial bank in Uganda is involved with the subsidiary of an insurance company (see below para 24) in which the bank advances funds to the contractors during the building period when the long-term finance is already assured. The insurance company takes over the financing in the long-term after the issuing of an occupation permit on satisfactory completion of the dwelling. A bank established by the colonial government was involved in the finance of residential construction in the longer-run in Uganda. This was the Uganda Credit and Savings Bank, and its annual report for 1963/1964 shows that at that time there were 184 loans outstanding to the total of Shs. 1,407,400 (rate of interest charged 9 per cent per annum). However, in 1965 this source was closed when it was transformed into the Uganda Commercial Bank, and began to operate on the same basis as the other commercial banks with their headquarters outside Uganda.

20. The expatriate commercial banks therefore do not lend money for house construction in the normal course of events. However, the practice of one major bank in Uganda is typical in its loans to permanent local members of staff at subsidised rates of interest for owner-occupier houses. Only seven loans of this type are currently outstanding with this bank. Otherwise banks provide subsidised housing for expatriate and senior local staff on similar terms to other employers.

21. Experience with "building society" finance in ex-British and ex-French colonies is one area where differences are likely to arise. In general the building societies in anglophone Africa have been relatively unsuccessful in providing a source of finance for a cross-section of the population. Those in East Africa collapsed in 1961 when a large proportion of deposits held by non-East Africans were withdrawn, and the Commonwealth Development Corporation became heavily involved in a support operation in the three largest (the Savings and Loan Society Ltd., the First Permanent Building Society and the

Kenya Building Society). In East Africa there have recently been formed three new units, the Housing Finance Companies of Kenya, Tanzania and Uganda, under agreements between the three Governments, the C.D.C. and the First Permanent Building Society. The agreements take the form of a "pump-priming" operation to re-establish lending to owner-occupiers where previously the only activity since 1961 has been to collect repayments of loans made before that time, and to receive deposits, in both cases paying off the external financial assistance. The terms of loans may be summarised as an $8\frac{1}{2}$ per cent rate of interest on an annually diminishing balance of a 75 per cent loan on the total investment of not less than Shs. 30,000, repayable over 10-15 years. (See attached Summary Annex I). Since the monthly repayment of a Shs. 20,000 loan cannot be less than Shs. 200/75, this type of society offers little for low income groups. The HFCU pays $4\frac{1}{2}$ - $5\frac{1}{2}$ per cent on deposits from the public.

22. In other parts of Africa building societies have had mixed fortunes. They have been most successful where they have not depended on an expatriate clientele, but on indigenous savings. A fairly full account of the operations of building societies in Africa up to the fairly recent past can be found in "Housing in Africa", 1/ and some later financial information is found in papers prepared for this meeting in January 1969. 2/

23. Insurance companies are another form of institution which give loans for relatively high cost housing development. In East Africa the societies involved in life insurance and endowment policies generally invest locally. However, local companies tend to be more diverse in their investments than foreign companies. The National Life Insurance Corporation of India is typical in having all of its local investments in East African Treasury Bills. In 1965 gross premiums on life insurance in East Africa were £6,313,105, of which £114,493 was re-insured outside East Africa. In 1965 between 25 and 33 per cent of East African assets held by insurance companies were in mortgages and loans, and an additional 10 per cent in Real Estate (this represented altogether a total investment of £12.7 million).(10) Not all of this was by any means in residential property, but it gives some indication of the possible scope of this source of finance. Life insurance and endowment policies are an important form of contract savings among East Africans, and of three private companies operating in Uganda between 80 and 95 per cent of business by value or number of policies were with Africans.

1/ E/CN.14/HOU/7/Rev.1

2/ E/CN.14/HOU/26 and E/CN.14/HOU/27.

24. The three companies mentioned in the previous paragraph were taken because they are involved in lending for residential buildings, and currently have a total of about £1 million invested in all mortgages, amounting to about one-third of their investments (not all of this is in purely residential properties). One of the companies has in fact established a subsidiary to handle its lending on residential properties, and limits itself to lending for owner-occupation. This company has 54 loans commited, of which 41 were fully taken up, and foresaw that this type of investment would be likely to take no more than 25 per cent of investable funds. Another company preferred lending for rental accommodation because with the high level of rents in Uganda's capital in recent years the repayment could be more certain. The third made no stipulation on owner-occupation. The interest charged varies between 8½ per cent and 12 per cent on a diminishing balance, with repayment over five years in the case of the company preferring rental accommodation, or 10 - 20 years in the other two cases. The terms of the loans in all cases made the types of dwellings thus supported to be in urban areas, and of relatively high cost, generally beyond the scope of middle and lower income groups. However, insurance companies represent a small but significant source of mortgage finance in East Africa.

25. Co-operatives and housing associations are promising areas of housing finance, if largely under-developed. In East Africa the Ismaili Community have, with the encouragement of the Aga Khan, committed themselves to providing each member of the community with decent housing under tenant purchase schemes. Trade Unions have shown interest in worker housing co-operatives, in Uganda going so far as to set up a subsidiary company: however this is still undeveloped. Some work has been carried out recently in Kenya on housing cooperatives in Nairobi, but this seems to indicate more interest in entrepreneural than social functions. (11) This area remains under-developed despite a fairly large literature on housing co-operative operations. (12)

26. Another source of finance in the private sector is through employer provision of housing, or participation in schemes for the raising of capital funds. The problem with the former is that it increases the amount of initial capital which an industrial investor has to raise, and therefore may lead to disincentives to investment. The second alternative of a type of tax or housing levy affects recurrent costs. It was largely because of the capital finance problems that the Uganda Government set aside the requirement that employers provide housing in the main towns in 1956, although the requirement still exists outside the towns. Zambia, for example, has a considerable amount of workers' housing provided on the copper mines, which has made relatively low construction costs to be reached

through economies of scale. (13) However, housing tied to employment has frequently been criticised on grounds of labour immobility, and social effects of employer control over workers. A levy on employers is, in many respects more attractive, and appears to have been quite successful in some countries. In a private employer context however a levy per number of employees could have two effects, first that of encouraging more capital intensive production techniques (also applies to employer housing provision) and second raising the level of the tax incidence on employers.

27. In the field of rural housing a considerable source of finance, in number of advances if not the aggregate amount of capital involved, is that of suppliers' credit. Thus it is frequently the case that the purchase price of corrugated iron roofing, for example, includes an element of interest since payment will be made over a period of several months. In a small survey in Uganda it was found that about half of a group of owner-occupiers working in a town had obtained some kind of credit or instalment payment on building materials. This is, of course, likely to be more important where the builder has regular paid employment as well as cash income from crops, since there is more likelihood of full repayment in this case. The major items of expenditure on a house built in rural or peri-urban areas, other than the labour element, lend themselves to this type of credit system when the type of construction is a modification of traditional methods. The types of materials involved are corrugated iron (asbestos) sheeting, roof and wall poles, doors and windows, cement etc.

28. Perhaps the best documented scheme which attempted to use credit for these supplies was the roof loans schemes in Ghana. (14) Despite the apparent lack of a final report on the scheme,1/ the idea of adapting housing loan institutions to the area where most significant improvements in standards of housing can be made (i.e. low-income groups in rural or peri-urban areas) deserves much closer attention than has been the case in the past.

29. Two other types of "finance" deserve mention here. They are personal accumulation of savings and of building materials. The question of personal savings is problematic, since at low levels of income the capacity to save is supposedly low. Few comprehensive income and expenditure surveys have been carried out in African countries, and so there is little information on savings behaviour, particularly in rural areas. What is clear from observation is that rural "savings" in Africa have two especial forms. The first is that of expenditure on consumer durables and capital goods after the lump receipt of cash crop earnings. This is likely to be important in the

1/ But see document E/CN.14/HOU/32

purchase of building materials, making the flow of business in these commodities distinctly uneven unless credit provision evens it out. Secondly there is quite substantial savings in "kind" in the form of stored building materials, and the building of new dwellings in stages as and when finance is available. The notable characteristic of this is that it is likely to make construction more expensive in real and money terms through loss and waste of materials, and through successive hiring of new labour and constant re-preparing of the site for work. In this second case the problem is sometimes apparently exacerbated by the setting of too high an original standard on the part of the constructor, making completion even more difficult. Apart from this "standard" problem, the availability of credit could make building quicker and less costly. Examples of the second case can be found in Uganda, not only in rural areas as in other countries, but also on the Grade II[1] estates in towns. However, savings in "kind" have been remarked upon in several other African countries.

30. Turning to the returns to investment, it is found that once again the dual nature of the market for housing is a major influence. So also is the predominance of government and employer provided housing. The returns to investment will clearly be a function of costs and revenue. Unfortunately, since "modern" sector housing is such a long-term asset, revenue in particular is subject to considerable uncertainty. However some attempt has been made to calculate approximate private returns on different types of housing. First a division will be made between high, medium and low standard housing on the following criteria:

a) high standard — appropriate for diplomatic, higher executive and senior civil servants level people

b) medium standard — appropriate for middle income groups such as executive staff in private and public sectors

c) low standard — appropriate for junior office staff, and lower income skilled and unskilled manual workers.

In most cases in Africa we might expect the first two to be in the "modern" sector, and the third to be more in the "traditional" sector.

1/ Refers to Building Regulations for Grade II construction, promulgated in Uganda (and Swaziland).

31. The high standard accommodation is considerably influenced by the high propensity for this group to have their accommodation provided at subsidised rents by employers. This is particularly the case where diplomats and senior civil servants form a considerable proportion of the market, and the result in Kenya, Tanzania and Uganda has been to push rents to an extremely high level. This is due to the very low bargaining power or incentive on the part of employers who do not wish to build their own houses. The rate of return on this type of property is likely to be in the region of 15 per cent per annum,1/ thus giving a fairly strong incentive for private investment in a sector which has seen rapid expansion of demand in the post-independence period. The demand has come largely from the opening up of diplomatic relations and the increase in economic activity reflected in large numbers of foreign high level manpower in both private and public sectors. With the high rate of return in the "high standard" sector, a comparable return would be required in other sectors of the market which act as alternative areas of investment, thus forcing rents up there as well -- this would be the case with the medium standard sector.

32. The demand for medium standard housing has been stimulated by the relatively rapid rates of economic development in the post-independence period, and in particular by the expansion of government administration as the expansion of the secondary and university level educatiom becomes an influence. The problem has been made more serious in several countries in the private sector due to the fall in business confidence in the late 1950s and early 1960s due to the reduction in world market prices of primary produce exports, and uncertainty surrounding the periods preliminary and subsequent to the achievement of political independence. The political influence was especially strong where a major part of the investment was carried out by expatriate minorities as in East Africa. Due to the shortage of accommodation thus created by demand and supply factors the rate of return is again in the region of 15 per cent per annum for new building, the rate of increase of costs having apparently been slower than that of rents. This does mean however that the returns on dwellings built in the period of low building activity are likely to be higher than this return on new building would indicate. Because of these high rates of return in the "modern" sector it has usually been possible for potential investors to find capital in some way to finance building, particularly for renting. However, the high rents are likely to have had the effect of giving renters an incentive to become owner-occupiers, and in this area the acquisition of finance has been more difficult, particularly for the middle-income groups.

1/ See Annex II for the calculations on which these estimates of returns in the three sectors are based.

33. It is in the low standard sector that some startling results can be found. The rapid rates of growth of urban population in Africa (15), more rapid than the rate of growth of recorded employment in most countries, have put a serious strain on the housing supply in an around the major towns of the continent. As a result the building of very low standard accommodation, unplanned and generally relatively insanitary (16), is very profitable. In circumstances of acute shortage of supply, tenants are prepared to pay relatively high rents for very low quality accommodation. These dwellings cost very little to construct, and assuming that the rent is paid regularly the <u>private</u> rate of return to the landlord on unplanned mud and wattle dwellings can be higher than in the other two sectors distinguished, at over 20 per cent per annum. In fact better quality dwellings built from the same basic materials can still be a profitable form of investment in planned areas under the jurisdiction of municipalities.1/ It is to a large extent to this type of development or organized site and service schemes that most African governments will probably have to look in order to solve the problem of shanty towns around the major urban centres.

34. Two types of policy measures can be used to reduce the private rate of return in the circumstances described above. Rent control can, in theory, be used to reduce rents across the whole market. Where housing subsidies or housing allowances are used, they may be removed. The latter policy will have the effect of reducing the demand for more expensive accommodation, and increasing the demand for cheaper accommodation, and therefore cannot be regarded as a useful policy measure in this regard since it is likely only to change the structure of rents between different sectors (i.e. here to reduce high rents and increase low rents). The theoretical effects of rent control have been discussed at some length elsewhere:

> The features of the housing market .... "tend to make short-run equilibrium rents rather high —— during periods of rapid economic growth and substantial shifts in the inter-regional distribution of population, with considerable income and capital gains by houseowners as a result. Undoubtedly, these circumstances are often regarded as arguments for rent control. Moreover, due to the limited availability of land with good location, prices tend to rise for such property when cities are expanding with resultant capital gains for the owners." (18)

1/ For example on Grade II areas in Uganda, and in the laid out areas of Dar-es-Salaam -- see Leslie (17).

35. For these types of reasons, particularly the equity argument of income redistribution between tenants and landlords, the Kenya Government recently introduced measures of rent control on residential properties. Legislation in February 1967 established a Rent Tribunal, and rents were related to their level as at January 1st 1965. Tenants of unfurnished dwellings up to K £40 or furnished up to K £55, in the three main towns of Kenya were able to appeal to the Tribunal for a reduction in rent. This was intended to cover lower and middle income groups. The major problems with this type of legislation fall into two groups. First there are the administrative problems of enforcing the act, and secondly the repercussions on the behaviour of the market.

36. In an economy operating broadly under conditions of free enterprise, effectively the only countries where rent control measures would be felt necessary, rent control is likely to hide rather than eliminate market shortages. Thus the common methods of using "key-money" and/or two rent books (one for the landlord and one for the controlling body) may be signs of a housing "black market". In situations where there is an acute shortage of housing it may be in the interests of the tenant to pay higher than he needs to legally in order to retain his tenure. It is difficult to imagine that in the peri-urban areas of African towns there is any satisfactory record of the rent paid for a particular dwelling on a specific date in the past, even if a satisfactory representative date can be set. In addition it is difficult to imagine rent control measures being widely effective when administration is difficult to ensure in all departments of government, and the level of literacy and sophistication of tenants in the face of the administrative machine is likely to render them ineffective. The actual effect of rent control is therefore likely to be extremely uneven, and in general unsatisfactory in its equity between different sectors of the market.

37. The second area is that of repercussions on the market, particularly in the light of the type of measures that the Kenya Government introduced. In general the economist's view is that rent control in a "free enterprise" economy has the effect of reducing the attractiveness of investment in housing in the long-run (new dwellings in any year are always a small proportion of the existing stock). However, if the incidence of rent control is different, either by design or administrative effect, in the different sectors of the market, then those sectors where it is effective in reducing rents will become relatively less attractive for investment than those where it is not. In the Kenyan context, one would expect, a priori, that after the introduction of rent control,

investment in unfurnished accommodation let at over K £40 per month would become relatively more attractive than that below K £40. If this is to be avoided then very complicated regulations may be necessary, but it is clear that the more complicated the regulations the more difficult administration may become. The fact that housing is not a homogeneous commodity makes any analysis of the likely effects of rent control difficult. It should be clear however that where rent control is effective it will necessarily reduce the return to investment in new dwellings, thus reducing the effect of the price mechanism, and thus possibly increasing pressure on government to enter into housing investment on a greater scale itself.

The Public Sector

38. Government involvement in housing generally takes both direct and indirect forms. Where Government is involved in the construction and administration it deals with both capital and recurrent financial elements. However, Government may also be involved indirectly. One indirect effect is through the control of the economy, including the overall level of economic activity, the ease of obtaining credit, and the level of interest rates. Government regulations and statutes will include stipulations on structural standards, health provisions and town planning procedures. In addition there may be taxes on materials and/or property taxes which indirectly affect construction and running costs of dwellings. So if, for example, land is available in towns with a high initial premium, high stipulation of the minimum standards and total value of development, then the total capital sum to be financed is likely to be prohibitive for all but the higher income groups.

39. Here we shall be concerned mainly with the Government's direct role in housing through operations at Central and Local authority level, and through public corporations. Public corporations involved are frequently known as National Housing Corporations.

40. Earlier in this paper it was made clear that as a legacy from the colonial period many African Governments may have a committment to provide housing where it is available for public officers, in some cases only those over a certain rank or salary scale. This has involved Governments in considerable capital expenditure, estimated in Uganda to have been about £12,750,000 for 3150 units up to 1962.[19] It is useful to separate this type of housing committment into three categories. In urban areas Government may provide housing for some employees as part of their conditions.

of service. In other areas, and especially remote rural and small towns the housing market may be so small that Government is virtually forced to provide accommodation for officers posted to these stations. The third category is that of housing tied to hospitals, schools and other such institutions where provision of accommodation close to the place of work is either considered essential or advisable - housing for expatriates may be included under this category. The provision of capital for house construction in this third category is frequently included in the expenditure plans for the institutions, so may be part of aid agreements, or at least has been budgetted for. The remote housing, and urban housing, is likely to pose more of a problem since they are seen as less essential, even though the former may be tied to such services as agricultural extension.

41. A difficulty in the financing of some Government housing has arisen from a practice that was common at least in ex-British colonies. This is the lack of proper accounting procedures with regard to the capital element of housing finance:

> "Generally speaking, no attempt is made to repay capital invested in Government housing; it is in fact initially written off (when provided from surplus revenues), or becomes a charge against general revenue (when provided under a loan scheme).[20]"

In Uganda at least, the high tax revenues of the early 1950s, when cotton and coffee prices were high, were used in part for building Government houses. In these circumstances, not only is the full extent of subsidies never revealed, but a major item of capital expenditure was charged to current account. This practice has also been followed in some local government housing schemes.

42. The capital finance for some local authority building has come from private sources such as insurance companies, and from public loans floated by the authorities (examples of both in Nairobi). Some countries have received capital from external sources in this respect, but in general capital finance has to be allocated from the capital budget of the local authorities, just as would be the case for the Central Government.

43. The National Housing Corporations in East Africa are an interesting contrast, and as exercises in obtaining capital funds for building a fairly full discussion follows. The National Housing Corporation of Kenya took over from the well-established

Central Housing Board in mid-1967 in order to act as a slightly more independent body than previously.(21) The Central Housing Board had largely been involved in channelling funds to local authorities from the Ministry of Housing. The capital structure of the Corporation at the beginning of 1967 consisted predominantly on loans from the Kenya Government and the Commonwealth Development Corporation (£3.9 million together out of total liabilities of £5.0 million). After a year of operation it is not yet clear what operational innovations will accompany the change of name.

44. The N.H.C. of Uganda was established in 1954, and it was initially hoped that some of the Government's stock of houses could be used as mortgage security for a large loan. Due to the inadequate marketability of the collateral offered, this hope proved to be ill-founded. Subsequently the Corporation has had considerable difficulty in obtaining capital, and the sources have been as follows:

a) £300,000 from Government for "low-cost" houses costing approximately £1,100 each.

b) £500,000 from Government for erection of Government Staff Quarters.

c) Government guaranteed loan from a commercial bank of £150,000 as deposit on a contractor finance agreement.

d) £1,500,000 external contractor finance for construction of a Government/N.H.C. office block.

d) £1,500,000 external contractor finance for construction of a Government/N.H.C. office block

e) £1,050,000 external contractor finance for construction of residential flats.

f) £100,000, loan from the National Life Insurance Corporation of India for residential buildings.

Thus it can be seen that the major part of capital finance has been from private sources external to Uganda. Whereas N.H.C. houses built using internal finance have annual rents assessed at approximately $12\frac{1}{2}$ per cent of the original capital cost (to cover all costs), the contractor finance dwellings have rents assessed

at 15-18 per cent due to the short-period over which the loans have to be repaid, and the higher costs of interest. External loans also create a foreign exchange problem when it comes to repayment. Recently another contractor finance scheme of £6 million has been entered into, so it is not clear to what extent this type of finance is regarded as a long-or short-term solution to the shortage of capital. The level of rents in relation to the repayment will depend to what extent the schemes involve owner-occupation, and this is limited by the availability of long-term personal housing loans (see Private Sector discussion).

45. The National Housing Corporation of Tanzania was established in 1963, and has concentrated on housing for lower and middle income groups. A considerable amount of its finance has come from external sources through aid agreements, and this has involved some equipment from the manufacture of, for example, doors, window-frames and concrete blocks in Dar-es-Salaam. Perhaps the most interesting element is the sum of approximately £900,000 in the form of an external grant which is used as a revolving fund for the construction of tenant-purchase dwellings. A problem in the type of programme that the N.H.C. in Tanzania is involved in is that of sub-letting. This phenomenon, of itself, is not a problem, but difficulties arise when the cost-based economic rent charged by the Corporation is below the market rent for this type of property. It is then possible for the Corporation's tenants to act as profit-taking intermediaries, which is, of course, even more of a problem if the Corporation charges a public-supported subsidised rent. In this latter case the intermediary is, in effect, receiving an unintended transfer payment since he is not using the whole of the building himself. This has arisen in Tanzania where a six-room dwelling is let on a tenant-purchase agreement for Shs. 180 per month, where this amount can be recovered by sub-letting three or four rooms, so that the Corporation's tenant obtains virtually cost-free accommodation. N. Jorgensen has also touched upon this problem in relation to experience in Kenya.

46. As discussed under Introduction, subsidies are used where it is considered that people are unable to afford a fit standard of accommodation from their regular income. They are, therefore, involved in income redistribution policy. Broadly, subsidies may be said to have four types of effects:

a) they form a commitment which has to be met from current Government expenditures,

b) they affect the consumption patterns in relation to housing expenditure, and if given only on rental accommodation would tend to decrease the incentive to owner-occupation,

c) the structure of the housing stock in terms of construction cost will, in the long run, differ from the 'free market' system depending on expenditure patterns,

d) in the long run the subsidy system may lead to a change in peoples' attitudes to their housing, so that subsidies cease to be an expedient for raising standards, but are taken for granted by the recipients - thus other types of income redistribution policies may be preferable.

47. In Africa, the proportion of the population that receives the benefit of subsidies is very small. Quite apart from the higher income group subsidies already mentioned, the remainder of the subsidised groups would usually be in the urban population, or if not then accommodated in employers' housing. Subsidies are therefore only likely to affect that part of the population that is in regular employment. The types of accounting systems used, including no allowance for capital costs, of the payment of housing allowances in addition to basic salaries, often do not allow an accurate assessment of the extent of housing subsidies. Additional forms of subsidies, apart from those on rents, may be preferential taxation measures, the provision of serviced plots and other services at less than cost, interest charged on loans at less than commercial rates etc. This means that the assessment of any one country's housing market in terms of the impact of subsidies may be very difficult.

48. In general, external capital sources are not likely to be interested in housing projects per se. In Latin America some aid programmes have had considerable interest in owner-occupier schemes, but largely as an important determinant of political stability. It is often one of the principles of projects using external capital funds that they should generate foreign exchange to help with the repayment of the loan. Housing schemes are unlikely to fall into this category. The types of projects that are most likely to succeed in attracting aid from external sources are 'pilot' projects connected with new strategies or policies towards urban or rural development. Examples also exist of aid programmes tied to the research and planning aspects of housing and/or urban development through technical assistance, rather than in aid for physical construction programmes.

Conclusion

49. We have carried out most of this survey of aspects of housing finance in somewhat general terms, with the occasional introduction of relevant examples. These examples, of necessity, came from within the writer's experience, and are not necessarily relevant for the whole of the African continent. Unfortunately, most published sources of information are usually out of date by the time that they become available. It remains to express a few comments on the role of housing in development planning.

50. Experiences over Africa are likely to differ considerably in the extent to which available resources are allotted to urban as opposed to rural housing, and high as opposed to low income groups. In general it can be said that urban housing presents a greater long-term problem because of the rapid rates of urbanisation involving sub-standard construction and great concentrations of population in relatively small areas. The balance in resource commitment between the various parts of an economy will ultimately be a matter of political judgement. However, it should be emphasized that within a given housing allocation, a greater proportion of resources to one part of the economy necessitates a reduction in the devotion of resources to another part of the economy. Thus, to increase the amount of building for high-income groups, will mean a reduction of the resources that might have been available for low-income groups.

51. If it is desirable that investment in housing be increased within any given country, then there are two alternative ways of doing this. Either transfer investment resources out of one activity into housing, or increase the available investment resources by encouraging saving specifically for housing. Despite the intangible benefits which arise from better housing conditions, such as better health and standards of living, it is usually the case that housing is included among 'infrastructure investments' which have a relatively long life, and a high ratio of capital to output. The proportion of national savings which is devoted to housing in development plans is, therefore, often low, reflecting the need for rapid returns to investment in countries aiming at high rates of growth of per capita income. Thus if a greater proportion of national resources are to be devoted to housing, then it would seem that the most likely expedient is the creating of new savings (i.e. the raising of the national savings

to income ratio). At present the measure of success in achieving this is relatively low, and when new savings are forthcoming through insurance companies or housing loan bodies they are devoted to loans to the urban, relatively high income groups. The need would, therefore, appear to be for the creation of new types of institutions to mobilize savings for lower and middle income groups in both urban and rural areas, along with a change of lending policy by management of existing institutions whereby security of mortgage and status of borrower can be brought together to satisfy lower income mortgage applicants.

ANNEX I

HOUSING FINANCE COMPANY OF UGANDA LIMITED

LOANS FOR HOUSE PURCHASE

Scope of operations

The price, cost including land, or valuation range of houses acceptable as securities must be not less than Shs. 30,000/-.

Title

The title must be unencumbered Leasehold with a minimum unexpired term of thirty (30) years at the end of the agreed period of repayment; or Freehold without encumbrance. In each case the property must be in a residential area.

Types of loans

(1) On dwellings to be built for occupation by the applicant and where advances are required by instalments during construction, provided no work has commenced at the time of application. Normally, (unless otherwise agreed) advances will be made in three payments, the first when the roof is on. Further details will be given on application.

(2) On dwellings to be built for owner-occupation when the purchase will take place when the dwelling is completed, if application is made for a loan before building commences.

(3) Applications may be considered in respect of private dwellings for owner-occupation which are in course of construction provided:

(a) The Plans and Speciation of Works and Materials have been prepared by a qualified Architect; and

(b) The Architect can certify that the work has been adequately supervised by a qualified person throughout the building period.

(4) Within the limits of the finance available, assistance may be given for the purchase of existing houses for owner-occupation.

Applications

Applications must be in the form prescribed by the Company and must be accompanied by the correct fee stated thereon. The application fee is not returnable, Plans and Specification of Works and Materials for the proposed building must be submitted, prepared by an Architect who is approved by the Company.

Amount of advance

For Uganda citizens the normal advance will be 75 per cent of the price, cost including land, or valuation (whichever is the lower), and this may be increased to 90 per cent when collateral security or a guarantee by a third party supported by a cash deposit is given. For non-citizens advances are limited to 60 per cent. The maximum advance available is shs. 140,000/- and the minimum Shs. 20,000/-. Further details are available on application.

Rate of interest

The rate of interest is 8½ per cent per annum charged on the balance due to the Company on the 31st December every year. At the commencement, interest will be charged from the date of advance up to 31 December.

Terms of repayment

The maximum period of repayment will normally be fifteen years with repayments of a fixed amount every month to include principal and interest. For example, the monthly repayment where shs. 20,000/- is borrowed over fifteen years is shs. 200/75.

Disclaimer

The foregoing is for information only and does NOT constitute the basis of an agreement to advance money. A decision whether or not to advance money and the terms on which such money will be advanced will be made by the Board of Directors of the Housing Finance Company of Uganda Limited and will be subject to conditions stated in the offer to advance money.

Annex II

RELATIVE YIELDS ON NEW BUILDING

This annex takes some calculations made by the writer for use elsewhere. They relate to building in Kampala, Uganda in 1967. It should be emphasized that the basic data came from interested investors who were in close contact with the market. The results should be taken only as representative examples. In all cases the yields are pre-tax, and it has been assumed that the opportunity cost of management services is zero. This makes the yield arrived at comparable with interest received regularly from a bank deposit or similar investment.

In using the 'yield' method of project appraisal, where the rate of return is the unknown 'r', the data to fulfil the equation

$$C = \frac{A_1}{(1+r)} + \frac{A_2}{(1+r)^2} \dots\dots\dots + \frac{A_n}{(1+r)^n}$$

are C, the capital cost of the project; A, the net cash flows in each year of the project; and n, the number of years of life that the investment is expected to have. Using Merrett and Sykes (22) it is possible to look up r for $\frac{C}{A}$ given the life of the dwelling.

(a) Higher executive/diplomatic style housing

The example taken here would consist of 4-5 bedrooms, 2 bathrooms, lounge area, balcony, large dining area, of about 3000 square feet in all. The cost of the building would be about Shs.150,000, with a land premium of Shs.30,000, giving a value for C of Shs.180,000. The gross rent would be in the region of Shs.2500 per month at the least, which gives Shs.30,000 per annum. After the land rent - Shs.4,800, maintenance - Shs.1440, and rates - Shs.2363 have been deducted, this gives a net rent of Shs.21,397; and this is the A term, which is assumed to be constant. From this $\frac{C}{A}$ is equal to 8.412. If we assume that the life of the building were to be only 30 years, a very conservative figure, then r would be between 11 and 12 per cent per annum. The longer the life of the dwelling the higher would r be, if the other figures remain the same.

(b) Middle-income Flats

In this example the minimum investment in land required was Shs.100,000, representing 1.35 acres, and the minimum investment in terms of development value was Shs.2 million, giving a value of C equal to Shs.2.1 million. This site would represent about 50 flats with two bedrooms each, which could be let out at Shs.600 each. This gives a gross rent per annum of Shs.360,000 for the whole building. If a maintenance cost of

Shs.60,000 per annum is assumed, and land rent Shs.14,400, with rates at Shs.21,000, then the net rent would be Shs.264,000. In this case $\frac{C}{A}$ is equal to 7.937, so again assuming a life of 30 years the yield would be between 12 and 13 per cent per annum.

(c) Peri-urban Housing

In this case we shall assume a Shs.4,000 construction cost for a four-roomed dwelling, each room let out separately a Shs.40 per month, giving an annual gross rent of Shs.1920. The only recurrent costs are assumed to be a Shs.20 ground rent and Shs.100 maintenance, giving a net rent of Shs.1,800 per annum. Here $\frac{C}{A}$ comes to 2.222, and the yield would be 44 to 45 per cent per annum if the life were 15 years. Even if a high capital cost of Shs.6,000 is taken, and the annual net income cut to Shs.1,500, then the yield is still 24 per cent for a 15 year life, or 21 per cent with a life of 10 years.

Annex III

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