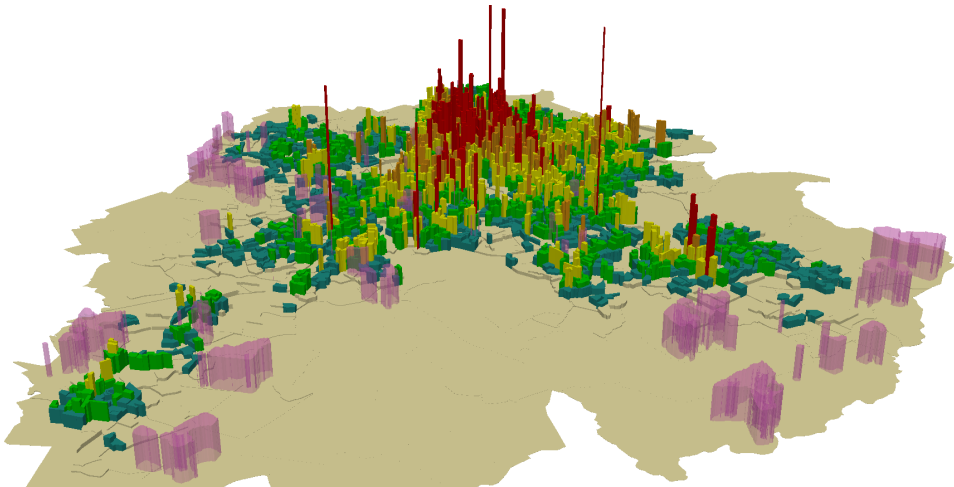


Urban planning, housing investments and redevelopment: Condominiums in Addis Ababa

Simon Franklin (LSE) - January 2015



Slums and urban redevelopment

Puzzle: as incomes grow, why do households continue to invest so little in housing?

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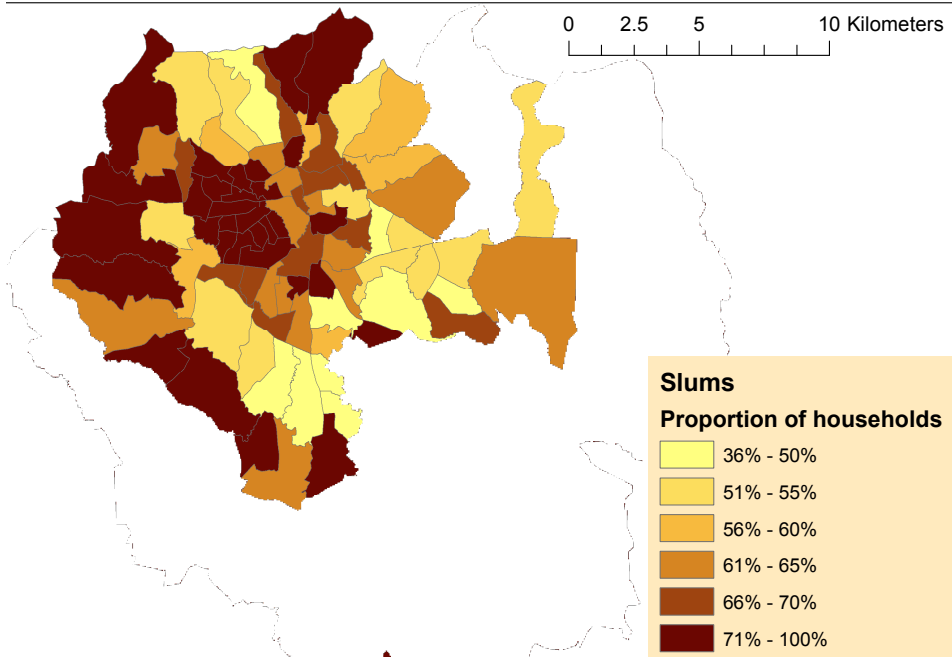
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What to do with well-located land occupied by slums?

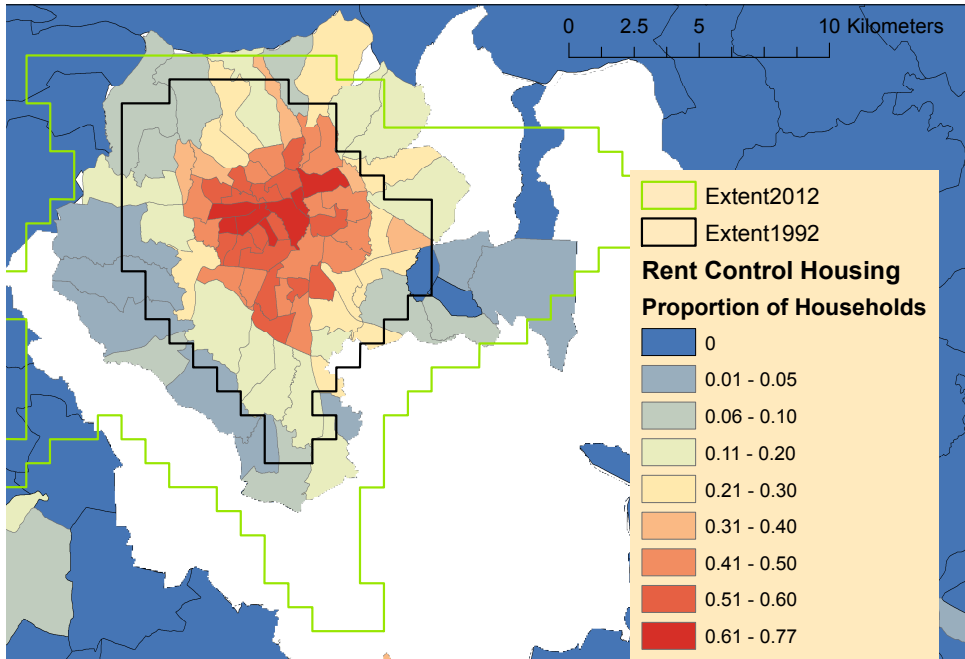
Ethiopia is selling condominium housing on the edge of the city to households living in slums in the centre.

- **This study:** exploits a lottery to estimate the impact of winning subsidised housing & subsequent relocation.
- Evidence of enormous investments in housing outside of the city centre.

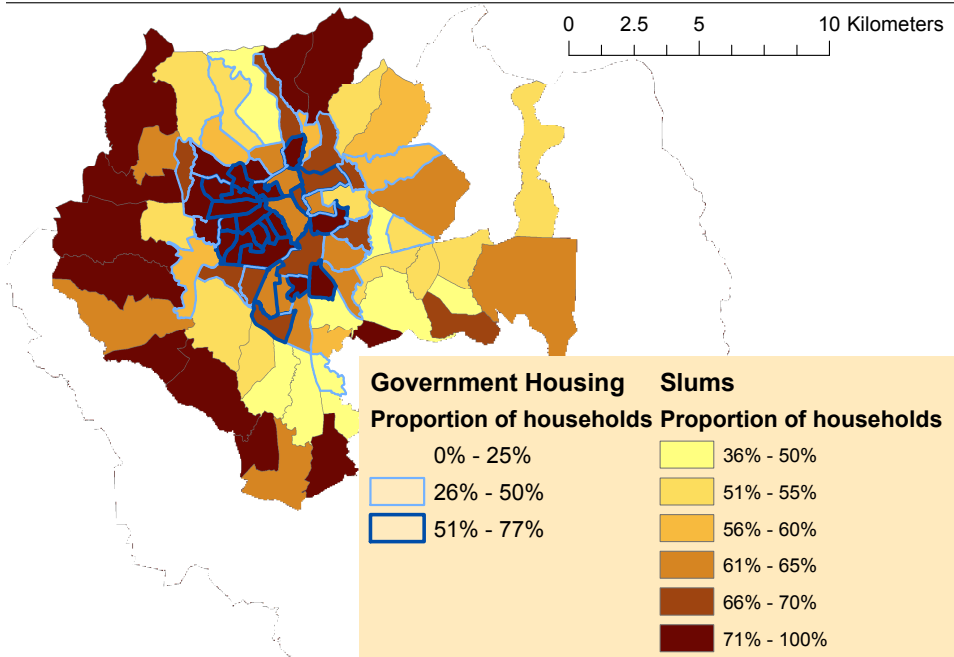
Most of Addis Ababa's housing stock is informal



Rent Control Established from 1975-1985



Political problem: rent controls and slums



Addis Ababa condominium program

In Africa: most common policy response is subsidized housing, on the outskirts of cities. **Is this a mistake?**



Common wisdom about what to do with slums

Provide property rights/upgrade existing housing incrementally.

- Is this the most efficient use of well-located land?

Encourage density: build up.

- Can households afford formal (multi-storey) housing?
- Without subsidies to the relatively rich?

Don't relocate households far away from the centre.

- How far is too far? Do the costs warrant the high price of better land?

Don't disrupt existing social networks.

- How severe are these costs? Should planners pay to leave networks intact?

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Government Housing Program

Government is building large 5-storey condominium housing units.

- Built on peripheral, undeveloped land.
- In conjunction with a master plan. New roads and light rail to connect to city.
- Density similar to the densest central slums.

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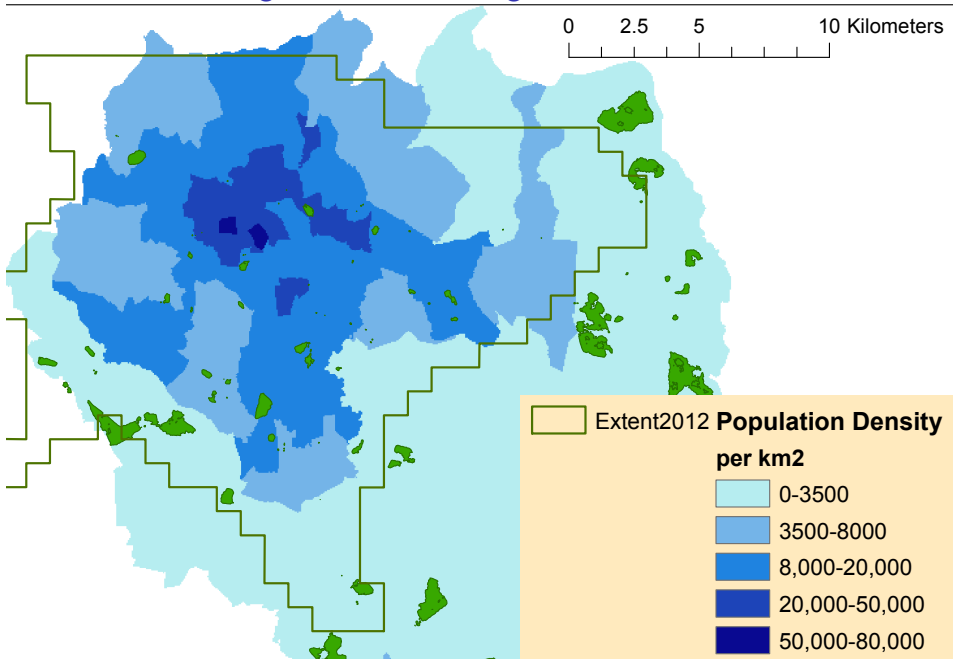
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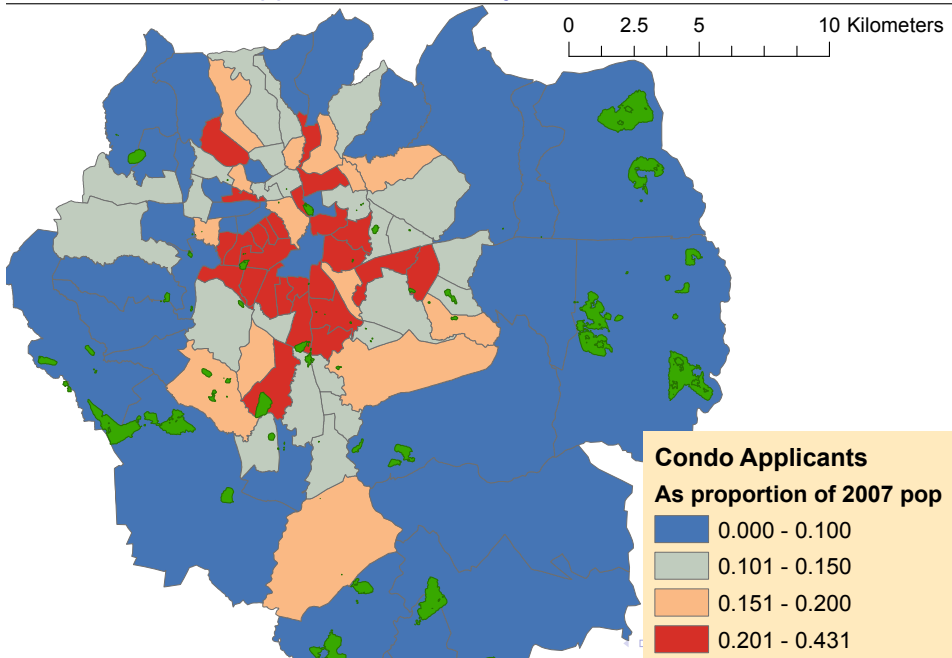
Spatial implications: Land on the outskirts is given away for free .

- 1 Trying to get households to move out of the centre.
- 2 Ensure that (inevitable) future development on the outskirts is well managed...
- 3 Auctions of nearby plots of rapidly appreciating land.

Housing is built on the edge of the current extent



Condo applicants are mostly drawn from the centre



Financing and Targeting

Financing: Government mortgages on the housing: buy to own, cannot sell for at least 5 years.

- Mortgage price after subsidies \$10,000 (average).
- 20% down-payment up front.
- Repaid over 15 years at 9.5%.

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Targeting: My data shows that the recipients are:

- Relatively wealthy.
- Live in terrible housing conditions and spend little on housing.

Scale: Over 150,000 units have already been delivered in Addis:

- 20% of population in 2007.
- Another 700,000+ are said to have registered subsequently.

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Due to capacity constraints: new housing units are assigned by **lottery**, annually.

- 1 2000 households, 1000 of which won the housing lottery in March 2015.
- 2 Baseline survey conducted shortly after lottery.
 - We were equally successful in tracking down winning and losing households.
 - Winning and losing households look identical (strongly balanced).
- 3 Lottery also randomizes housing location and neighborhood.

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Government is already selling land in that area for auction at prices above the value implied by current rents.

**Rent on the outskirts is currently around \$100 per unit.*

Better located units rent for \$300.

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At the time of first survey households had already had the chance to make down payments:

97% of winning households made the down-payments.

How do households make down-payments this large?

I estimate the impact of winning housing on household finances to show where this money came from:

- 1 Move all other savings: 20%
- 2 Loans (mostly from friends/family): 50%
- 3 Gifts (mostly from friends/family): 15%

Suggests enormous spare capital available: over 100,000 households have found this credit.

Interim Results

Program has induced enormous housing investments where there were none before. However:

- 1 Formal housing, built at very low cost and highly subsidized, is only really affordable to wealthy households.
- 2 Coordination was required (households expect appreciation of land values on peripheral land).

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Should housing be built closer to the centre?

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Should policy take social networks into account?

- Estimate the impact on loss of social networks on relocated households.
- Exploit random unit assignment to study neighborhood effects.

Should planners try to encourage neighborhood diversity?

- Estimate the impacts of exogenous variation in diversity on network formation, collection action, attitudes, and prejudice.