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The rental market in an industrialising city



In brief

- A key policy objective of the Ethiopian government is to accelerate industrialisation through the creation of several industrial parks across the country. An ongoing IGC project in Hawassa Industrial Park shows the role of housing shortages and rental prices in triggering worker absenteeism and turnover.
- We conduct quantitative surveys to explore the housing market in the city and how it interacts with the changing industrial landscape of the city.
- Using these three sets of surveys, we produce the first in-depth quantitative picture of the housing stock in Hawassa city and provide evidence on the institutional links and relationships between homeowners and workers of the park.
- We find that while rental prices have increased over time in nominal terms, they seem to have remained stable after controlling for inflation. We do not find evidence of market concentration in the rental housing market, and, instead, rental market appears to be competitive with numerous small players supplying the vast majority of houses in the market. Housing quality also appears to be largely homogenous.
- We also find that access to credit is the major constraint landlords faced in their desire to expand the supply of housing. Relaxing credit constraints may thus lead to increased supply of housing units in the city.

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Research overview

To the extent that workers' accommodation is a concern for enterprises in the park, the project provides key statistics on the stock of housing in the city, rental prices and their changes over time, and the quality of workers' accommodation and their interactions with the homeowner (landlord). The project will contribute to the study of private sector development by investigating the key obstacles to the growth of manufacturing industry in Ethiopia. We set out to answer the following questions through our survey.

- *How common is rental arrangements in the city?*
- *How does rental prices behave over time?*
- *Is the rental market characterised by market concentration with few important players supplying the vast majority of the housing units?*
- *Is there substantial variation in quality of the rental houses in different locations within the city?*
- *What are the key barriers to the further expansion of the rental market?*

To study the functioning of the housing market and the evolution of prices, we performed three separate exercises. First, we listed all homeowners in two neighborhoods that accommodate a large number of workers. Second, we randomly sampled more than 500 landlords from this list of homeowners and administered detailed interviews with them. Third, to get a broader picture of the city's housing market, we interviewed a second sample of landlords, selected through a geographically stratified random sampling procedure.

Policy motivations for research

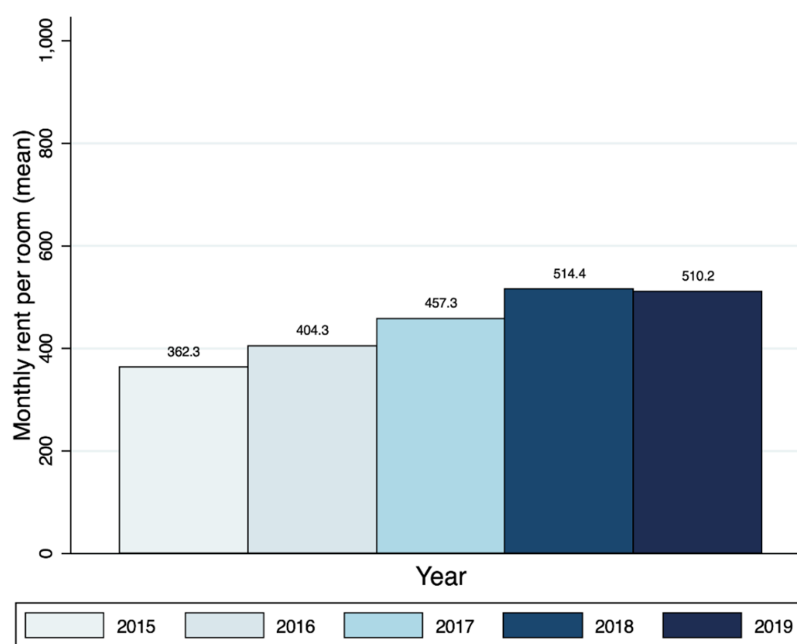
During our ongoing project that studies labour turnover in Hawassa Industrial Park, a recurring theme that emerged from our field work was the crucial effect of housing as a key driver of turnover. Lack of proper housing for workers leads to lengthy commuting time, poor quality of accommodation, heightened safety risk (particularly for female workers), and under capacity production by firms (unable to move from one- to two- or three-shifts of production) – thereby reducing worker productivity and increasing absenteeism and turnover. Given that most workers are migrants from rural villages, accommodation thus becomes a key concern in the resettlement of these workers in the city.

Similar sentiment was reflected in various policy-centered workshops attended by the authors of this report. In fact, senior policymakers were adamant that the success of Hawassa Industrial park hinged on properly accommodating its ever-expanding labour force. A forecast by the government estimated more than 40,000 workers would need accommodation by 2021.

Housing markets are an understudied topic in development economics, but they have recently received more attention in the wake of new interest in urbanisation. Our project thus produced one of the first in-depth quantitative pictures of the housing stock in an African city and provide evidence on the institutional links and relationships of homeowners and industrial workers in the park. Our results highlight that the housing market, while competitive and with mostly stable prices (Figure 1), has supply that is constrained by lack of access to credit. Information friction also appears to play a prohibitive role in the efficient allocation of housing within the city.

In the Ethiopian context, our study is particularly important as lessons from the nascent Hawassa Industrial Park could be transferred to the existing industrial parks as they expand in scale. With the plan of building 15 industrial parks and 22 agro-processing parks across the country in the next few years, understanding key barriers to affordable accommodation would be informative to the industrial policy making process of the country.

Figure 1: Average rent from 2015-19 in Hawassa city



Key research questions	Summary of key findings
How common is rental arrangements in the city?	We find that renting is extremely common in the selected neighborhoods. Almost 90 percent of the listed homeowners have at least one tenant.
Is the rental market characterised by market concentration with few important players supplying the vast majority of the housing units?	We find that most of the rental market is composed of small players. For example, more than 85 percent of tenants live in the property of a landlord that only owns one house (and that virtually all tenants live in the property of a landlord that has no more than two separate houses).
How do rental prices behave over time?	We find that real rental prices have stayed constant or have decreased. While nominal rental prices increase have been substantial in the last five years, real prices have been stable. Between 2016 and 2019, for example, nominal rental prices have risen by about 26 percent. Over a comparable period, consumer price inflation has been 33 percent.
Is there substantial variation in quality of the rental houses in different locations within the city?	Notwithstanding perceptible differences in rental rates, we find that housing quality is fairly homogeneous. For example, more than 80 percent of rented units have a concrete floor and mud walls and more than 90 percent have a roof made of corrugated iron.
What are the key barriers to the further expansion of the rental market?	The most important barrier to a further expansion of the housing stock allocated to the rental market is lack of finance. Since, housing construction is predominantly done from 'own savings', it usually takes long time to mobilise savings large enough to start constructing new housing units even when spaces is available in the homeowner's compound.

Policy recommendations

Avail financing scheme to homeowners to encourage them expand the housing supply in the city

Relaxing credit constraints have the potential to substantially increase the stock of housing available in the rental market and decrease rental prices even further. The government itself has run a small pilot scheme in 2017 that funded the construction of some housing units. While there have been problems with the scheme (in particular with the quality of the houses built), the take-up of the programme was encouraging. In a future design, it would be interesting to experiment with offering credit conditional on meeting set housing quality standards.

Implement interventions to reduce search friction in the market

The existence of substantial price dispersion despite the relative homogeneity of housing quality points to the presence of potential search frictions. This is further confirmed by the existence of frequent tenant turnover (which is the most commonly reported problem by landlords). Overall, this suggests that interventions that reduce these frictions – for example by publicising the prices of rented units and their quality on a publicly available platform or by supporting workers in the search process – may be promising in this context.