

URBAN LANDMARK CONFERENCE.

**OPPORTUNITIES AND CHALLENGES OF FALLING
LAND MARKETS AND SUSTAINABLE LIVELIHOODS
OF THE URBAN POOR**

**BYTES CONFERENCE
CENTRE, MIDRAND, GAUTENG, 28TH-29TH
OCTOBER, 2009**

**Paul M. Syagga, PhD
Department of Real Estate and Construction
Management
University of Nairobi**

1. Urban land and the poor

- Poorer people looking for land to live and trade on in the city find it difficult to compete in the market.
- Consequently poor people either find accommodation in the peripheries of urban areas where they may incur substantial costs, both in time and money, in commuting to employment opportunities in the urban center;
- Or live on unserviced land within city boundaries where infrastructure and urban services are often lacking or deficient with life threatening consequences.
- Why should this be so?
- Because the state and society have failed the tests of upholding distributive justice and sustainable livelihoods.

2.Sustainable livelihoods and poverty reduction

- Livelihood comprises the capabilities, assets(both material and social resources) and activities required for a means of living.
- A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base.
- Sustainable livelihood outcomes should include increased incomes, increased well-being, reduced vulnerability, improved food security and more sustainable use of natural resource base.
- Invariably, land is an important asset that when combined with individual /collective capabilities play an important role in the realization of sustainable livelihoods for the urban poor

2.Sustainable livelihoods cntd.

- First, land is a natural asset that provides space for many activities for the urban poor including residential accommodation, business space for home-based enterprises, and urban agriculture.
- Second, access to land improves the quality of life of the urban poor through access to public provision of infrastructure and services(water, sanitation, power, etc).
- Third, land is a social asset that provides platform for social networking by the urban poor(community organizations, sports, etc).
- Fourthly, the value of land to the urban poor does not necessarily depend on ownership(“possession and disposal”).What is most important is the security of tenure(protection from forced eviction or harassment on land/residence without due process),whether the occupation and use for long or short period of time(owner-occupation vs tenancy)
- Finally, under international treaties where the right to property is protected, and in countries where it is a fundamental right, it has never been doubted that the right to property must yield to the greatest social good of the community.

3.Land inequality and distributive justice

- If land is so important for livelihoods in an urban economy, why is there such inequality in land distribution to the disadvantage of the poor.
- The need for equity in resource distribution is anchored in the principles of **distributive justice**, which states that human beings in any society have the same initial expectations of *basic goods*, the bundle of material goods necessary to sustain a decent life, which are to be distributed equally. However, inequalities arising out of choices and ambition can be *just and fair*(Rawls,1971).
- Distributive justice can allow one person with better endowments and skills to have better outcomes than another, if compensation for basic goods has already taken place(Sen, 1997; Dworkin, 2000).
- There is thus a case for **policy and institutional intervention** to correct inequalities arising out of circumstances beyond one's control , but leaving individual inequalities deriving from choice and the market competition intact. **See Olympic Games**
- But the state governs land in the public interest and so needs to secure opportunities for all urban residents to have a stake in the urban economy in the context of distributive justice.

4. Falling land prices and the poor in cities

- For the urban poor there is probably no more fundamental problem than their inability to access decent, secure land for even the most minimum livelihood needs.
- Can the current falling land prices (real or perceived) provide access to land for the urban poor in absence of affirmative action or distributive justice to secure sustainable livelihoods for all urban residents?.
- Are the falling land prices sufficient to increase affordability even for the bottom 50% of the urban population in cities?
- The following few cases of Kenya, South Africa and India may illustrate the myths and realities, and the opportunities and challenges of falling land prices in the midst of poorer urban population.

4.1. Falling land prices in Nairobi, Kenya.

- In terms of urban development, only 0.7% of Kenya's total land area of 582,000 square kilometres is urban land, accommodating 22% of the national population (38 million). The capital city of Nairobi accounts for 55% of national GDP and 40% of urban population (3 million) of whom 60% live in unplanned settlements with minimum or no basic services.
- The city population is categorised into urban poor/low income earning less than US\$350 per month and accounting for 72% of the population, the middle who account for 24% of the population earning US\$351 to US\$1600 and the 4% high income group who earn an average of US\$2000 per month.
- Nairobi's property market has been booming since 2003 due to demand by Kenyans in the diaspora, increased mortgage lending due to entry into the market by commercial banks, and relatively low interest rates averaging 13% compared to 28% in 2002.
- Property returns have averaged 5.58% for houses on large plots and 9.58% for apartments in the same district. Quality apartments sell for US\$200,000 and houses have an average price of US\$400,000.
- In the outskirts (25km away) the properties sell at half these prices, but infrastructural services remain impediment to developable land.

Nairobi land prices

- However, residential property prices reportedly fell by 1.4% and 2.2% in the second and third quarters of 2009 respectively, compared to 2007 and 2008, when every quarter saw a 4% or more increase in property prices. Between 2007 and 2008 the overall prices went up by 30%.
- This, however, gives a small picture of overall trends in the property market as it only included neighbourhoods in the upmarket suburbs. It needs to be seen if there will be trickle down effect in the rest of sub-markets in Nairobi.
- In the lower end of the market there is yet no evidence of melt down in property prices. The reason being scarcity of housing for the low income sectors of the population.
- Infrastructure provision through incentives to private sector as well as infrastructure bonds is the ultimate answer for the public sector to fulfil the social contract to provide urban land for the poor.

4.2. Falling land prices in South Africa

- In comparison to Kenya where urban population is less than 25%, in South Africa the urban population account for 54% of the total national population of 40,584,000(Statistics South Africa,2003).
- Within the urban population, it is estimated that despite considerable efforts to provide 2.3 million new low-income property owners with serviced sites/houses for individual ownership since 1990,there are 2.1 million poor households(10.5 million people) earning less than R3500 per month who are landless.
- In the meantime,South African property prices remain firmly in negative territory, and based on estimates by Absa Bank, for instance, average property would fall by 10% this year.
- The reality,however, is that despite the declining interest rates, a rising number of insolvencies and liquidations, the spectre of slow economic growth and poor job creation prospects, few households are in the position to take advantage of improved affordability of housing.
- The case for the 2.1 million households is even gloomier unless affirmative action is taken to assist them to access land for their livelihoods.

4.3. Falling land prices in India

- In Asia between 30% and 50% of urban residents lack any kind of legal tenure document which enables them to occupy that land. This is despite the reported falling land prices that should have benefitted the urban poor.
- House prices in big Indian cities continued to fall during the first quarter of 2009, having begun to slide in 2008. The prices had dropped in Q1 2009, up from reported price falls of 78% in Q4 2008. But most buyers do not take out mortgage loans, such that housing loans to GDP is less than 5% in India.
- The most negative indicator for India's market is that residential yields are low at 2.9% to 4.6%, because of problematic socialist laws protecting tenants. Cities with rent controls generate lower yields.
- Secondly, residential properties still remain less affordable because of low wages relative to house prices. In Mumbai, for instance, residential properties cost 100 times the average annual income.
- Therefore the buyers are unmoved even with the falling prices, and demand remains depressed, and the poor continue to live in squalor.
- Again without deliberate efforts to actively assist the poor the falling prices would remain a pipe dream as a solution to improve the lot of urban poor.

5. Challenges

- House prices will keep falling in many cities, but the poor remain in squalor because those prices are still dangerously high compared to incomes
- While in Mumbai house prices are 100 times average incomes, an apartment price of US\$ 180,000 in Nairobi is 43 times annual wage of low income household, and the median price of R542,000 is 13 times the annual income of R42,000 in South Africa. This is against the expected ratios of 3:1.
- Given the relationship between incomes of the poor and the property prices it is incumbent upon the state machinery to provide the grounds for distributive justice whether by way of cross-subsidy or grant in order for the poor to access urban land. One such case is to purchase land during falling property prices and maintain a land bank.

6. Opportunities for intervention

- As reported in African Business Publication(July,2009) property prices have tumbled in many Gulf States over the past year and so a range of investors from the region are looking to Africa and even further afield for alternative investment targets.
- It suggested that the global economic crisis will encourage them to set up their property acquisitions in Africa because lower valuations offer good long-term value. A Dubai real estate firm, Dayaar, for instance, has identified markets in Africa and the Middle East where it will concentrate its resources.
- Further more, any slowdown in investment in Africa could be partly mitigated by a wave of new financial support from the World Bank, over the next three years to promote infrastructure and low-cost housing in developing countries notably:
 - i. the new Infrastructure Recovery Asset(INRA)fund of US\$45billion and
 - ii. the Infrastructure Crisis Facility(ICF) fund of US\$10billion; both to be managed by the International Finance Corporation(IFC).

7. Conclusions

- There are few urban issues that are more complex or conflict-ridden than land and how it is used. As cities grow in size, population and prosperity, the demand for land by every sector of society brings never before imagined pressures on scarce urban land and increasing its commercial value.
- Policy makers should at the same time recognize that providing land to the poor is ultimately a political issue driven in many respects by concerns for distributive justice and sustainable livelihoods.
- Falling land prices, if ever they occur, should be an opportunity that the political elite and the policy makers can utilize to further the mission of urban poverty alleviation.
- Falling land prices will need to compliment other strategies will be in an effort to improve livelihoods of the poorer urban population.

8. Wayforward

The following strategies are pre-requisites to take advantage of falling land prices for the benefit of the urban poor:

- **Planning more efficiently to** reduce per-unit land costs, allow for more efficient/affordable basic services, and create better living environments
- **Cross-subsidy schemes** such as those in East Asia which require private sector developers to reserve part of their market-rate housing projects for the low-income.
- **Improving land information system because** unclear land records, leave room for land use to be manipulated in different ways by powerful interests to the disadvantage of the poor.
- **Managing migration.** While it is not possible to prevent new migrants from entering the city, management must integrate them into the formal system as rapidly and smoothly as possible through developing realistic land-use plans and infrastructure standards, especially in rapidly growing peri-urban areas to lower the costs of planned sub-divisions.
- **Improving basic services and regularizing low income housing.** For cities with large unserved slum and squatter communities such as Nairobi, slum upgrading can directly improve the lives of the urban poor . Monitoring data from East Asia, for instance, indicate that each dollar of public investment in physical improvements in such areas can generate

Prologue

- **We must stop being passive observers;**
- **We must stop being people with a growing feeling of indifference;**
- **We must stop being simplistic, taking the non-controversial route and hoping that some one will do it for us;**
- **We must move away from unwillingness or inability to confront and resolve conflicts conclusively;**
- **We must be part of the solution.**

THANK YOU