SOME THOUGHTS ON A HOUSING POLICY FOR NAIROBI

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A serious shortage of housing, particularly for low income persons, presently exists in Nairobi. Dwelling units are available only at rentals that seem very high relative to the standard of accommodation. Solution of this problem is receiving a very high priority by city officials and several imaginative proposals are now on the drawing boards. Experiments with timber and pre-cast concrete low-cost units are now being carried out, site-and-service schemes have been instituted, careful consideration is being given the "squatter problem", and some urban redevelopment projects are planned for the near future. The goal of the city planners is clear: provide the best possible housing for low income persons in the most economic manner.

So far, several lines of policy have been used. The principal tool for solving the problem has been provision of city-council financed dwelling units. At the moment there exists a waiting list of more than 30,000 persons who want to occupy city-council units and it is planned to push forward with maximum speed in increasing the number of such units. However, the rate of expansion is constrained by lack of funds and ability to execute complex projects. Introduction of site-and-service schemes (Kariobangi is the principal one) have been designed to ease these constraints, as city council is required to provide only the plots and basic services and private individuals construct the actual dwelling units. However, there has been considerable dismay over the growth of "landlordism" in the Kariobangi scheme and this calls for some rethinking of the desirability of such projects. Considerations of equity have called forth policies of keeping rentals on city-council units at a "fair price" and the introduction of rent-control legislation.

The purpose of this paper is to point out the ways in which various objectives and policies may be conflicting, to illustrate the dimensions of the problem with concrete reference to the proposed Pumwani redevelopment scheme, and to suggest some criteria for policy in the future.
By definition, scarcity of housing means that the demand for dwelling units is large relative to supply. There are several ways of rationing this scarce supply. Each has different implications for real income distribution and for the future stock of housing. Let us begin by examining the way in which a free market might be used to allocate housing.

The first point to be made is that if rentals are determined by market forces rents will be high for only one reason -- scarcity of housing. The market will allocate housing units to those who are willing to pay the highest rental. People who can afford to pay less (or who are unwilling to spend a large fraction of their income on rent) will therefore occupy less desirable housing than will wealthier persons or those who place a higher priority on good housing. Their housing will be situated farther from employment centers (although the lower rents will tend to be offset partly by higher transport costs), be of lower quality, and more crowded. The best solution to the problem for many poor people will be to "squat" -- this will provide some shelter at the lowest cost available to these people. Of course, even some richer people may choose to squat if they wish to spend most of their income on other things than housing.

It is important to note that the determination of who lives in the available stock of houses (and at what rent) is a separate, or at least separable, issue from that of ownership of the units. Thus, if the City Council rented its units for the best price they could fetch, the occupancy pattern would be identical to the one that would occur if the same units were owned by private landlords seeking maximum profits.

If housing units are privately owned and the market is allowed to work, and works "correctly", the high rents arising from relative scarcity of housing will make the building of new rental units very profitable to landlords. Given this incentive, landlords will expand the stock of housing -- the higher the profits the faster will the stock rise. As the number of units expands, the relative scarcity will be eased (note that this requires expansion of units at a higher rate than new family formation,
including immigration into the urban area) and rents and profits will be driven down. (Note that if rents did not fall, some units would fail to find tenants—competition among landlords to fill these empty units would force the rents down. If one doesn't find vacancies forcing rents down because of growth of demand through urban growth, the implication is that scarcity of housing would have been greater, and rents would have risen more than the stock of housing not been expanded in response to the high prospective profits). This process will continue until the level of profitability of housing investments falls to that from investments in other activities such as trade, transport, manufacturing etc. Subject to qualifications raised later, it will be undesirable to push housing expansion past this point (so that profitability in housing would be lower than elsewhere) since this implies that resources would be devoted to housing that could be used to satisfy more pressing wants elsewhere in the economy. This conclusion is based not just on some textbook abstraction about the need to equate rates of return on capital in different activities. What I am really saying is that it may be undesirable to try to make people consume more of one commodity, in this case housing, when they would prefer to consume more of something else given their limited income.

II. DRAWBACKS TO THE MARKET SOLUTION

Now there are several reasons why this idealized picture of how the market works may not be met in practice. First, due to imperfect information flows, rents may not actually reflect the true scarcity of housing. Ignorant tenants may pay more than they would if they were aware of rents in other localities. Landlords may charge less than they could for the same reason. Both of these are very real possibilities in that there is no organized market for low-income housing in Nairobi. Information about vacancies and rents travel by word of mouth and is often confined to channels embracing a single ethnic or tribal group or sub group.

Secondly, landlords may not respond to high rates of return by building more houses. They may be satisfied to consume their rental income. Or there may be the problem of credit availability which keeps landlords from building more houses. (This argument is rather weak, however, since if
rental incomes are high there is potential for landlords to save a larger fraction of their income and invest it profitably. This has been the pattern of successful African industrialists and traders -- those without credit have been if anything more successful in expanding than those with credit but lacking dedication to business expansion or managerial ability to realize high profits. See Marris on Kenya and Harris on Nigeria). There is some evidence that this has been the case in Kenya recently. Asians who provided a large share of private housing in the past and have been in the position to raise capital and build housing for rental have felt insufficiently secure to make such investments. The result is that high rates of return on existing houses has failed to elicit a rapid expansion of the stock of houses.

Additional factors may serve to thwart the working of these market forces. Particularly, land suitable for housing development may not be made available to the would-be developer, or may be made available under conditions that do not make his tenure secure. Also, building codes and requirements may prevent types of construction that would be profitable.

Before citing particular figures, one must also be careful to insure that one is measuring the rate of return on housing. A good part of the rental paid for a particular dwelling unit is actually a payment for the convenience of the location (a rent for the land). For instance, an individual working in the industrial area should be willing to pay a higher rental for room in Pumwani than he would pay for an identical room in Kariobangi since he will incur far less expense (or exertion) for transportation to work each day. Therefore, the evidence of a 100% rate of return on buildings in Pumwani is not evidence that such rates of return are available from buildings alone. Much of the rental is in effect a location or land rent which is being received by the landlord. If there were a free market in land, it might well be that Pumwani housing received a negative return since the land could be rented to someone who would demolish the existing structures and use the land for other purposes and still find it possible to pay a higher rent for the use of the land alone than is presently paid by tenants for house and location in its present use.
If present landlords have been favored by the city council by being able to obtain the land for 30/- per month, they are in effect receiving a gift from the city council -- the gift is the difference between the 30/- and what the council could receive for the land from the highest bidder at public auction. The returns available from housing investment must be evaluated net of the full market value of the land. My guess is that the returns are still high. Three alternatives face the city council: it could receive full economic rent from its land; sell it to the highest bidder in auction; or else continue to make it available on a "subsidized" basis to those that it finds deserving of public subsidy. It's far from clear that the present plot holders qualify for special treatment although some of the old and infirm mentioned in the report may do so.  

These latter statements lead to the point that even if the market worked in the way suggested in the first paragraphs, it may still be socially undesirable. We will may be unhappy to note that people with high incomes are able to get the best housing in the most desirable locations. We might want to distribute housing on some basis other than earnings. This is one of the usual justifications for rent control or for public authorities to build housing and let it for less than would be received in an open market (note that waiting lists for city council houses is sufficient evidence for concluding that this policy is being followed by Nairobi City Council). This, of course, means that there is an implicit subsidy given to individuals who obtain rent-controlled units or city council flats under these schemes. Note what the problem is -- because there is an implicit subsidy, more people would like to rent the rent-controlled or city council units than there are units. Therefore, waiting lists for such units arise. In Nairobi there are more than 30,000 on such waiting lists. How are individuals chosen from these lists of applicants? Clearly some kind of administrative rationing device has to be used. What is disturbing in Nairobi is that it is far from clear that the administrative apparatus allocates the housing units to those who are most "socially deserving" of the subsidy. There is some evidence that the better-off individuals benefit most. The same will be true of privately owned units subject to rent control. The landlord, unable to
extract the full market rent from prospective tenants, will also be induced
to give more weight to various personal characteristics such as cleanly
habits, few children, pretty wives, interesting conversation etc., many
of which are associated with relatively high income and status. Thus
rent control may serve more to redistribute wealth from landlords to
wealthy (attractive) tenants than to help the poor and needy. At the same
time fewer resources accrue to the council or landlords than would be
the case in the absence of the subsidy/control. These resources could
be used to expand the stock of housing more rapidly, thereby attenuating
the housing shortage. Instead, they are diverted mainly to alternative
consumption by tenants. The result is that people who are unable to gain
access to subsidized/controlled units pay higher rents and have poorer
living conditions than would otherwise be the case. It is probably a
safe assumption that the tenants who suffer from the present system of
subsidies/rent controls are both poorer and more numerous than those who
benefit.

One must also consider the desires of the "socially deserving" (the
poor?) for housing relative to other goods. It must be kept in mind that
the principal problem of the poor is a lack of income -- poor housing is
just one manifestation of poverty. In this respect the Kariobangi experi-
ment is instructive. Plots were allocated to the "socially deserving"
(destitute) on which they were to build decent-standard housing. Some credit
was to be made available. Because land for building such houses is scarce
in Nairobi these plots had value -- considerably higher than the nominal
charge imposed by the council. In some cases the individuals receiving
plots sold them to potential landlords who were unable to obtain direct
allocations and were willing to pay something approaching the "true" value
of the land. In other cases the recipients of plots built houses which they
rented out and then "squatted" in Matheri valley or elsewhere. The city
council feels that the project was a failure because the "socially deserving"
did not end up in better housing, as had been intended. It should be
carefully noted what happened here. The "socially deserving" were assisted.
In effect, the city council gave them a gift of money equal to the difference
between the market price of the land and the nominal allocation charge. Some of these people used this gift to obtain better housing than they would otherwise have had. Others found that they had other uses for this gift that seemed more pressing to them than Kariobangi-standard housing. Therefore, they realized this gift (in cash or rents) and spent a smaller amount on housing than the council thought they should, and thereby had more money for such things as food, clothing, school fees etc. Again, the council helped these people -- however, the individuals' views of the amount they should spend on housing vs. other goods, given their low levels of income, differed from the view of the council. It should also be noted that the Kariobangi scheme served to expand the stock of relatively low cost dwelling units in Nairobi and as such contributed to some easing of the housing shortage -- rents from low income people must be lower by some small amount than they would have been had these houses never been built. The same applies to squatter dwellings; if they are bulldozed, there will be less housing units available and rents will be forced higher than they would be otherwise. Whether this indirect method is the best way of subsidizing the poor and adding to the stock of low-cost housing is not at all clear.

III. THE PURWANI REDEVELOPMENT SCHEME

So much for general considerations. What is the relevance of all this for the proposed redevelopment of Purwani? There are two not unconnected issues. First, what should be done with the land in Purwani? Secondly, what should be done with and for the people who are presently living in the area? Economic analysis would suggest that the land should be made available for its highest valued use subject to some general zoning control which would prevent uses that cause undue hardship or annoyance to adjoining property users, and which would provide for the use that would continue to be most valuable in the light of projected patterns of growth of the city. The heart of the argument for turning land to its highest valued use is that the total land in Nairobi will be then used most efficiently. A subsidiary argument is that if land is transferred from low to high value use there will be a net gain to the economy. It will be possible to compensate those who are displaced so that they are no worse off than before the change and still
have money left over, which can be used for other purposes. Of course, the desirability of such a shift in land use depends on whether such compensation is actually made and the form which it takes.

It seems reasonable to assume that the present use of the land in Pumwani will not be optimal in the long run. It is certain that higher-value uses than relatively low-density low-income housing can be found for the land. Fairly high density high-income housing, commercial, or industrial uses are bound to be superior from a standpoint of resource allocation. At present, the city council is the owner of this land. How can it ensure that the land is put to best use? There are two principal methods available. One is to offer the land at auction or by tender to the highest private bidder who will then be free to use the land as he sees fit (subject to zoning laws). The land can either be conveyed as freehold or in the form of a lease for a specified duration.

The individual or firm that can find the highest-valued use for the land will be able and willing to make the highest bid for it. If the auction or tender is well advertised and truly competitive, there is assurance that the land will be used to its best advantage. Not only will the land be efficiently used under such a scheme, but the city council will also receive the maximum revenue possible. This can be used to compensate the former occupants. There will still be a surplus which can be put to other uses.

Second, if city council wishes to retain direct control of the land it should then determine the highest-value use of the land, build those facilities and rent them to the highest bidders. If there are some users who are deemed especially deserving from a social standpoint (such as low income persons, elderly and infirm individuals, hospitals, community centers, etc.) a specific subsidy should be granted to those users. The subsidy should not be generally available to all classes of potential users, as happens when a single price below the market clearing price is set. Furthermore, it should be carefully determined that there are no less costly means of providing for these specially deserving persons or institutions.
The present Pumwani redevelopment scheme is suspect on two counts. First, it is not clear that the proposed pattern of use is that of highest potential value. Second, and most important, there is evidence that the city council will not reap the highest possible return from the facilities it is proposing to construct. Already more applications have been received for these units than there will be units. The existence of a waiting list is prima facie evidence that the rentals and selling prices of these units are too low. (This criticism applies generally to all city council dwelling units.) There will be some administrative procedure devised to allocate these units among applicants. This procedure will serve to bestow implicit subsidies on those who are fortunate to be chosen. There is no evidence to suggest that those chosen will be more deserving of such subsidy than those who are not chosen (in fact the reverse is likely to be the case.) Not only will the distribution of subsidy not necessarily be appropriate but fewer total resources will become available to the city council to pursue other goals -- the paramount one should probably be to provide housing for low income persons.

This relates directly to the second problem -- what should be done with and for the present residents of Pumwani. There are two classes of individuals who must be considered; landlords and tenants. The latter are perhaps easier to deal with. Appropriate compensation for these individuals should take the form of ensuring that dwelling units are made available on terms that are no less favourable to them than the existing arrangements in Pumwani. It is no less necessary to ensure that these alternative dwelling units should be ready for occupancy by the time the existing Pumwani houses are due to be vacated. Since the appropriate location of such housing will be less convenient than Pumwani, the rents for similar accommodation will have to be lower than Pumwani rents to compensate for the higher transport costs that will be incurred in the new location. This can be done through city council's building appropriate low cost units for these people. Since Pumwani rents are presumably set by the working of the market this means that in general the new units should be built to a standard that allows them to be profitable to city council at a market clearing price.
Compensation of landlords provides a more complex situation. Part of their present incomes from Pumwani property arises from their good fortune in having been able to obtain plots at less than their value, and thereby appropriate some of the land rent for themselves. There is no reason to feel that they should be compensated for this loss unless the city council intends them to continue receiving a subsidy. Compensation may be granted in the form of a lump sum cash payment which should be the appropriate capitalized value of the stream of rents that they would have continued to receive from the structures (and land if it is decided to compensate them for the loss of the "windfall") had redevelopment not taken place. Alternatively, they could be compensated through the provision of plots in a new location at terms which differ from the market value of the plots by the amount of compensation coming to them. (This may result in some cash payment being required for the plot or may consist of a plot plus some cash). A credit scheme may also be called for to provide the immediate resources needed to build new dwelling units but there is no need for these terms to be concessionary.

One complication arises here. There is some evidence that some rentals paid in the present Pumwani area are lower than they would be in a free market. It is likely that this arises largely from landlords granting implicit subsidies to family members or specially deserving persons such as the sick and aged. If this is the case, it means that the dichotomy between landlords and renters is not complete. Some of the gains to landlords have been redistributed to tenants and this should be taken into account in devising compensation schemes.

So far this paper has talked only in "cold hard economic terms." The "Report of the Working Party" rightly laid great emphasis that Pumwani is a living functioning community that provides many services for its members above and beyond those that can be measured in terms of rents and property values. Many of these benefits cannot be bought in markets with money. Therefore, there is great need to consider these factors in any redevelopment or rehousing scheme for these people. Is it not possible to rehouse this group in a manner in which will retain most of the values of the existing social organization? It would seem that with sufficient
The public should be grateful to the committee that compiled "The Pumwani Report" for clearly outlining the situation as it exists at present and drawing attention to the fact that the present redevelopment scheme will fail to provide rehousing for the inhabitants of the area. However, it is not clear that either of the alternative schemes proposed by the committee (upgrading of existing structures directly by City Council or through loans to existing plot holders) will provide a satisfactory solution to the problem. First of all, the proposed renovations are expected to justify 50 per cent increases in rent. Will the present tenants be willing to pay this much more for rent, given their incomes? Furthermore, there is a strong case that continued use of this land for low-standard housing is inefficient for the city as a whole. The crux of the problem is that the present plan neither provides compensation for existing tenants nor obtains as much as it could from the better-off persons who will benefit from the scheme. Thus it appears that a third alternative, for the Council to derive the maximum return from the land and buildings it is providing in Pumwani and use the receipts to compensate tenants and provide more low-cost housing in Nairobi would be superior on grounds of both economic efficiency and equity. If the maximum return is obtained by the council there will be sufficient resources immediately available to carry out adequate compensation.

IV. CITY COUNCIL HOUSING SCHEMES AND POLICIES: SOME CRITERIA

This analysis has implications for city-council housing schemes in general. The housing problem in Nairobi is principally a lack of sufficient housing units appropriate for low-income persons. The best way to solve the problem is to increase the stock of such dwelling units as quickly as possible. If city council charges what the market will bear on all of its units (the existence of waiting lists or vacancies give an accurate guide to whether or not this condition is realized) the maximum amount of resources will become available to the council for expanding the stock of housing. (Of course, as the stock of housing expands the market clearing rents will fall, thereby benefitting tenants and slowing the rate of housing expansion.
unless council borrows to continue the programme at some high rate).

If it wishes to make plots available for private building which will increase the total flow of resources into the housing sector, it should charge the maximum price or rental for the plots that can be obtained through tender or auction. If it wishes to subsidize certain groups it should do so deliberately by granting units or plots on concessionary terms. It should not be dismayed if the recipients of such largesse in turn sell the plots or sub-let the housing units at a profit. The goal of subsidization will have been realized in these cases just as well as when persons use the plots or housing units as intended by the council -- they will have received a grant of additional real income.

There is a possible counterargument to this. It may be felt that housing standards have important effects on health and social accommodation to an urban setting that are not fully realized by consumers. That is, public authorities may have reason to believe that individuals do not properly understand what is best for them and that they should therefore be forced or induced to enjoy a higher standard of accommodation than they are prepared to pay for. This does provide a case for housing subsidy and prohibition of selling these subsidy rights.

However, it appears to the writer that the more rapid expansion of housing arising from city council maximizing its revenue from housing and land transactions will lead to higher standards of housing for more people at lower rents in the shortest possible period of time.

V. CONCLUSION

The basic argument of this paper is quite simple. The Nairobi housing problem is principally the result of too few housing units of standards appropriate for very low-income persons. The council should pursue policies that will cause the stock of such housing units to be expanded as rapidly as possible. By charging full market rents for council units and selling or leasing land at the highest possible prices, the maximum amount of resources will accrue to the council for vigorously pursuing low-cost housing programme.
FOOTNOTES


2. Ibid, p. 10

3. It might be useful to examine this famous waiting list in more detail. Does it mean that there are 30,000 homeless persons walking the streets unable to find housing or imposing on relatives for accommodation? It is highly unlikely that persons in these categories appear on the list at all and it is significant to note that persons now receiving allocation of city council houses placed their names on the list in the early 1950's. The significance of the list is that, given present city council rents compared to private market rents, there are 30,000 families that would prefer to move out of their present housing units into cheaper and better accommodations afforded by the council. Little can be learned about the general adequacy or inadequacy of housing in Nairobi from the number of persons on the list. What can be learned is whether or not city council rents are above or below the market-determined rents. If city council rents were cut by 50% the waiting list might well swell to 70,000 families on the list, while if they were raised above market rents, the waiting list would vanish and council units would lie vacant. If council rents were just equal to equilibrium private rents, there would be no waiting list for any particular standard or type of unit, neither would there be any vacant units. Obviously, rents, and hence rates of return, to different standards and types of units will differ. This will provide a guide to the types of units that deserve greatest priority for expansion.

4. M.A. Tribe, "Patterns of Urban Housing Demand in Uganda," East African Economic Review, IV, 1 (June 1968) pp. 35-50, reports that in Kampala private renters had an average monthly income of shs. 486/- while tenants in municipal estates earned shs. 577/- per month on average. On the other hand average rental paid per room was shs. 45/- by private renters and shs. 25/- per room in municipal estates. The result is that private renters spent on average 14.1 per cent while tenants in municipal estates spent only 7.0 per cent of their incomes on rent. The corresponding figures for Entebbe are 12.1 and 8.4 per cent. The situation in Mbale was reversed; private renters spent 10.8 per cent and municipal estate tenants 11.3 per cent of income on rent. It should be noted that government employees occupying official quarters in Kampala spent only 4.3 per cent of income on rent; in Entebbe and Mbale the figures were 2.0 and 2.5 per cent.

Although we do not have comparable current data available for Nairobi, an unsystematic examination of available information suggests that the situation is quite comparable to that in Kampala or, if anything, the rent-income ratios will diverge to a greater extent between private renters and municipal housing tenants. Tribe is very explicit about the perverse redistribution of income that occurs as a result of municipal rental policies (p. 46).
5. Acceptance of this criterion may well reveal that under present building codes, architects will be unable to design houses that can be built and rented at the necessary level of rents without any overt or covert subsidy. If this the case it suggests that much thought must be given to revising building standards and design that are considered acceptable for the city. One of the advantages of "planned squat" schemes is that individuals, if allowed, will provide units of lower physical standard than the council is prepared to build directly, yet these units may well be better suited to the economic needs of the people concerned.

Another common fallacy that must be put to rest is that if the council is able to borrow money from the CDC or World Bank at 7%, the appropriate rent is that which will recover the capital of the project with a 7% rate of return. If at market rents the council can reap a return of 40% on capital for which it only pays 7%, so much the better for the council and society. It has been fortunate to be able to borrow so cheaply. The high rate of return will mean that the loan can be repaid and that a large surplus will accrue to the council that then expands the capital available for more investment in housing. Housing expansion should be pursued until market rents yield only the level of return that can be obtained in alternative investment projects. It is absolute nonsense to equate an "economic rate of return" with the somewhat concessionary rate at which public bodies are able to borrow. Similarly, if council wants to encourage private building, it can borrow funds at 7% and lend them with mortgage rates far in excess of this amount. This too will increase the total pool of funds available for further lending. That study makes clear that part of the functioning and organization of a community is dependent on its physical location. For instance, many of the social ties and relationships that make Pumwani a community may well cut across the borders of the redevelopment area into adjacent areas. Furthermore, many income generating activities in Pumwani such as petty trading are dependent on proximity to the central city. It may be very difficult to preserve this community and structure of occupational opportunities in a new setting; matters which are not to be taken lightly.

Yet it is true that if Pumwani rentals are market-determined most, if not all, of these locational advantages will be appropriated by plotholders in the form of rents. Thus it is the landlord who has most to lose from redevelopment -- he stands to lose a substantial implicit subsidy arising from his good fortune in having obtained a Pumwani plot. The possibility still remains for the Council to compensate all residents and plotholders fully and still gain resources for other uses by making more rational use of the Pumwani site. However, close attention must be paid to social as well as economic factors in determining compensation criteria and programmes.


9. Ibid. p. 10. The report is distressingly vague on the expected returns to be gained by purchasers of the new units but one can infer rates of return between 25 and 50 per cent per annum from the data provided. The fact that applications received exceed the number of units available is sufficient proof that the Council is not charging as much as it could.

This, however, is easier said than done. Experience with urban renewal schemes in the UK and US suggests that communities have not been preserved despite occasional pious expressions of intent to do so. It is a very difficult problem indeed but one must preserve the hope that if planners are sufficiently concerned about the problem, solutions can be found.
10. It is interesting to note that the "Farnworth Report" (quoted on p. 13 of "The Pumwani Report" op. cit.) stated "THERE IS NO LEGAL OBLIGATION ON COUNCIL TO GIVE PREFERENCE TO STAKEHOLDERS" (p. 3); and that "THE COUNCIL HAS VERY LITTLE IF ANY MORAL OBLIGATION TO PROVIDE FOR THE STAKEHOLDERS AT THE EXPENSE OF OTHER SECTIONS OF THE COMMUNITY" (p. 5).