

Research Article

The Challenges of Financial Impacts on Ethiopian Real Estate Developers

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A B S T R A C T

Because of the migration of people from rural areas to urban areas, there is a significant disparity between the demand of housing that is needed and the amount that is available in Ethiopia, notably in the nation's capital. This makes it possible for a large number of real estate developers to put some of their capital into the sector. By interviewing sixty-three real estate developers in the country's capital, Addis Ababa, the primary purpose of this study is to determine how the real estate development industry is being affected by the current financial climate. The study used a descriptive research methodology in order to collect specifics and provide an explanation for the phenomena. Additionally, the researcher used a purposive sample strategy based on the years of operational experience had by the developers. The information that was gathered was organised into tables and then subjected to an analysis in which it was triangulated with previous research and published works. The primary effect of the industry's ongoing financial difficulties is a failure to provide houses in accordance with the customers' agreements, which in turn results in a decrease in the overall quality of the houses that are built at the conclusion of the project. These issues are the direct result of a shortage of long-term loans and other types of financial sources. According to the data, the majority of developers need work from the government in the form of a policy framework that includes rules. Since the real estate sector accounts for 12 percent of Ethiopia's gross domestic product, the government is obligated to pay attention to it for economic reasons. In addition, the sector is responsible for the direct and indirect employment of workers. In order for developers to be more effective in their work, they have banded together to create associations, which they use to handle issues that arise within the business. At this time, there are many developers in the country, particularly in the nation's capital. Their final purchasers are high income segmentation clients; thus, in order to lessen the demand for housing, the public private partnership has also been recommended by the researcher.

Keyword: Real Estate, Finance, Real Estate Developers

Introduction

The real estate and construction industries together were

responsible for 12.5 percent of Ethiopia's Gross Domestic Product (GDP) contribution. The construction sector is

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regarded to be responsible for the remaining half of this contribution to GDP, which means that the real estate sector alone accounts for around 60 percent of it. When compared to the average growth of the entire GDP, which was only 10 percent over the same period of time, both components within the sector have grown by a total of 25 percent over the preceding successive years (Natnael 2018). On recent years, investors have significantly sped up development, mostly concentrating their efforts in the more urbanised places such as the country's capital, Addis Abeba. As a result of rapid urbanisation and an increased demand for housing, the city's real estate market is expanding at a rapid pace, which is attracting investment capital from both local and international investors. While this does not serve the skyrocketing number of Ethiopians who do not own a home, it does not serve this segment since it has been the one most often involved in disputes around delivery and the high cost of housing. The vast majority of the developers who were given plots were unable to fulfil their contractual obligations to their clients in a timely manner (Natnael 2018). Due to the complexity and, to a large degree, the capital-intensive nature of the endeavour, adequate and reliable financial assistance is required to make housing development viable. The process of housing development may be sped up when there is easy access to a significant quantity of real estate financing and it is also easy to utilise. The ability of investors and profit-seeking organisations to get finance for real estate plays a crucial role in guaranteeing an adequate supply of homes (UNCHS, 2008). The cost and accessibility of finance options for real estate development may put an ease on the viability of housing construction projects.

Literature Review

The idea of real estate finance may be understood as the method by which a person finances the construction of a house as well as the purchase of an existing one. Finance for real estate transactions is essentially necessary for either the buyer or the seller. The real estate developers demand a significant amount of finance in order to acquire property, shop for construction supplies, and carry out other activities related with building. The end users need access to finance in order to purchase the building of new homes, as well as for the upkeep, repair, and expansion of houses that currently exist. Housing is an extended and long-lasting asset; the finance that is required is often in the form of a stretched term loan in nature (David, Doris 2015).

Because Ethiopia does not have a real estate finance system that is practicable, it is difficult to collect the necessary cash and get loans for the development of housing. The money that is collected from clients is the only source of revenue for this segment of the real estate industry; it does not have any other financial resources. As a result, projects are

influenced by insufficient resources, which also supplied in a primary method that led to delays for lengthy periods of time. The lack of a sustainable and sufficient financial market has an effect on the affordability of homes, which in turn restricts the feasible requirements and leaves the market with extremely slender and illiquid leftovers. Under the current housing loan regulations, only a small segment of the population in Addis Ababa would be eligible to receive credit offers from the city's banks. The ease with which collateral may be used to provide assurance, as well as the purchasers' capacity and document correctness with the creditor, are additional factors that can have an effect on the financing options available. Payments are often paid at various phases of the building of the house and its services under the standard practise of selling real estate houses to clients from real estate developers on instalment plans. This is the most popular form of the transaction. The market does not see much activity in the trade of houses that are easily accessible. Another challenge is the fact that there is now a significant shortage of foreign currency, which has led to expensive exchange rates for the primary currencies. This deviation has an impact on the standard procedure and contributes to an increase in the cost of local resources and human resources.

As a direct result of the administration's inflexible stance on financial matters, the urban real estate finance market has had the least amount of access to appropriate financial services throughout the course of the preceding decades. In addition, since there is a danger of credit and a lack of capital for asset creation in the real estate segment, the supply of growing and rapidly developing private financial institutions in the form of long-term housing finance is irrelevant (Tefaye 2011). Inadequate sources of finance from regulators and private financial institutions as well as a lack of support from the stakeholders in providing amenities where only a small source of households in Addis Ababa would be in a position to availability of loan in presented housing and credit laws which has made the majority of people living in Addis Ababa unable to meet the stringent requirements of the financial institutions (Getachew 2018).

The impact of inadequate financing may be most obvious in the residential real estate market; however, it is also known that it has an effect on sellers, who find it difficult to begin and finish the developments without sufficient granting funds, as well as on buyers, who are frequently unable to obtain adequately reasonable loans. (Access Capital Report 2016).

Statement of the Problem

The primary contributors to the housing crisis are demographic shifts brought on by urbanisation and an expanding human population. The speedy pace of

urbanisation has serious impacts, not only in terms of the quantity but also of the quality, of the housing needs that must be met. The unmet needs for housing that give a foothold for productive expansion also lead to homes that are uncomfortably crowded. In the event that outstanding consideration is not given to the method of solving accommodation problems in Addis Ababa, unanticipated settlement, homelessness, and street dwelling may be outside the concern of the government and urban management, which may have unfavourable effects on the local society. As a result, the crisis surrounding the right of entry to appropriate housing has reached a disaster situation as a direct result of the speedy increase in the world's population, the rapid pace of urbanisation and migration from rural areas to urban areas, the deterioration of the existing housing stock, and the lack of fundamental amenities. There is a high probability that the micro scale housing cooperative, the government, and individual homes will not be able to meet the tremendous housing demands. Real estate developers need to be actively involved in the production of a significant increase in the number of homes available throughout the nation (Getachew 2018).

The primary reason why this study concentrated on the variable of finance is due to the fact that the vast majority of other factors, such as the capacity of the industry, the timely delivery of resources and human resources, and the overall capability of the business, are either directly or indirectly linked to the availability of finance. This study article centred its attention, from the point of view of the paramount relevance of housing finance, on the impacts that the financial issues faced by real estate firms have.

Research Questions

The following research questions were the focus of this study, and their answers are provided appropriately.

- What are the major sources of financial finance available for the development of real estate in Ethiopia?
- Do Ethiopia's real estate developers have access to an acceptable amount of finance from a variety of sources?
- What are some of the other most significant challenges faced by the real estate sectors in Ethiopia?

Research Objectives

The primary purpose of this study is to evaluate the impacts that Ethiopia's real estate developers are facing as a result of financial challenges. More specifically, the purpose of the study was to:

- To determine the most important source of funding for the industry
- To investigate if the available finance in the real estate sector is sufficient

- To identify the most prominent challenges facing Ethiopia's real estate sector

Research Methodology

Within this section of the study, the research technique that was used was discussed. The techniques of data examination as well as the devices and procedures that were utilised to obtain data were highlighted. In this section of the study, we also presented the research strategy, the population, the sample size, as well as the data collection and discussion.

Research Design

The author of this piece of work utilised a descriptive research approach in order to highlight the impacts of financial challenges on real estate developer firms in a more in-depth fashion. The results of the survey were compiled by collecting and evaluating data from a random sample of real estate developer firms that had been determined to be representative of the whole group. To put it another way, just a small sample of the total number of real estate firms was studied, and the findings from that portion were presented.

Sample and Sampling Technique

There are now 630 registered real estate developers operating in Ethiopia, as reported by the Investment commission of Ethiopia. But because of the ongoing COVID-19 Pandemic, the researcher was unable to travel to all of the main locations. However, almost all of the real estate firms are located in Addis Ababa, and this presents an opportunity for the study to concentrate on Addis Ababa. Addis Ababa is the capital city of Ethiopia, and it contains almost 4.5 million people. Addis Ababa is also a city that is being hit hard by rural migration. The researcher sampled ten percent of the total population, which amounts to sixty-three real estate developer businesses. In addition to this, the researcher makes a conscious effort to choose the most productive developers that provide both residential and commercial houses for their clients. In addition, the researcher conducted an interview virtually via the use of zoom to get information on the influence that financial challenges have on the efficiency of real estate development firms as a whole.

Data Collection

The researcher created and distributed questionnaires for respondents in order to collect primary data for the purpose of obtaining knowledge obtained through first-hand experience. The questionnaire was addressed to the financial managers working for real estate companies, from whom the information had been created and who use the information to formulate financial judgments. All of the respondents filled out the distributed questionnaires

and returned them to the study after doing so. Analyses were performed on qualitative information obtained via interviews with representatives from two real estate developer companies, and these data were triangulated with quantitative data.

Method of Data Analysis

The data that were obtained were analysed by making use of the descriptive statistics that this technique provides. The order was to explain and characterise the variables in an acceptable way. In order for this to be a scientific and trustworthy study, SPSS version 2018 was utilised, and the findings were presented along with triangulation using both empirical and theoretical literature.

Result and Discussion

The results of this study were presented in great manner in the following paragraphs. As the questionnaires were distributed out to various professionals working in real estate companies, their roles within their relative companies are presented below:

Table 1. Participants' Role in their Companies

S. No.	Participants	Frequency	Percentage
1.	CEO of the Company	18	18%
2.	Project Head	5	5%
3.	Finance Department Head	77	77%
4.	Other	-	-
	Total	100	100

According to the data presented in the table that is located above, the majority of the respondents to this study, which accounts for 77 percent, are in rest of the finance heads of their respective companies, which allows for a more in-depth examination of the subject topic. Additionally, 18 of the respondents were the chief executive officers of their respective businesses, and the remaining 5 percent of participants were project heads who were in charge of leading construction sites along with contractors.

Table 2. Forms of Business Entity of Developers

S. No.	Forms of Business Entity	Frequency	Percentage
1.	Private Limited Company (P.L.C)	82	82%
2.	Sole trader	2	2%
3.	Share Company	16	16%
	Total	63	100

The rest of real estate companies in Ethiopia are organised as private limited companies, accounting for 82 percent

of the market. The other 16 percent are legally organised as share companies, and they have made their ownership available to the private public. In terms of the experience of time that they have spent working in the sector, the majority of developers had a minimum of five years of experience, which accounts for 97 percent of the total, while the remaining real estate developers that were taken into account for the purpose of the study have worked in Addis Ababa for less than five years.

Table 3. Sources of Capital

S. No.	Description	Frequency	Percentage
1.	Equity Capital	24	24%
2.	Pre collection from clients	16	16%
3.	Loan	60	60%
	Total	100	100

According to the finance managers who were briefed during the interview session, the majority of the real estate developers were using their own personal and other sources of funding, while the remaining 16 percent were collecting cash from customers prior to or during the construction phase of houses, which is an issue that can sometimes bring about disputes. The majority of the financing was obtained in the form of loans from various financial institutions by the majority of real estate developers, which accounted for 60 percent of the total. This issue can sometimes bring about disputes.

Conclusion

The major participants of this study were the financial managers of chosen real estate firms. Additionally, a virtual discussion between the researcher and two executive officers was conducted, during which they provided specifics about the present status of real estate development. According to what they said, the procedure requires general changes from all of the players, particularly from the government, in order to make it easier for the activities to be carried out in the future. The industry is facing a number of significant challenges, the most significant of which include a shortage of finances, an absence of an available long-term loan, and an increase in the price of construction materials. As a result of these difficulties, a number of business owners have indicated that they intend to shut down their operations.

Recommendation

The researcher makes some recommendations in the hope of mitigating the negative impacts that the real estate sector is experiencing as an order of the ongoing financial challenges.

- It is believed that the entry of foreign banks may improve this situation, despite the fact that the policy of the country does not support it due to the protection of domestic banks. The government is responsible for motivating real estate development banks in order to provide sufficient long term loans for developers
- It is necessary to alter the rules and regulations in order to provide considerably more space for investors in the sector
- Rather of segmenting solely those with high incomes, real estate developers should try to incorporate people with middle-level incomes and people with low incomes as much as they can
- Through the formation of their own organisations, the owners in the sector are obligated to regularly evaluate the most significant challenges in terms of finance and any other relevant variables
- If it is supported by a policy framework, the establishment of public-private partnerships will also contribute to the formation of a favourable climate in the sector

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