

Explaining Ethiopian Soaring Real Estate and Property Prices

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February 1, 2016

Introduction

Admittedly, in all countries of the world, Ethiopia included, the reasons behind rising property prices could be many. In the Ethiopian case, these factors include, among others, demand for and supply of real (estate) assets, rising population and urbanization, the existence of a large number of tenants working for donor communities (NGOs) and multinational institutions, huge influx of money that the diaspora community sends back home (remittances) that largely is poured onto the housing and real estate markets. This commentary, however, focuses on government policy-driven (infrastructure and service sector-focused) and the corruption fueled aspect of the fast-rising real estate and related property prices.

A Short Context

For generations, land has been a pivotal resource and power in Ethiopia and this power is exclusively in the hands of the government and cadre elites who can expropriate land at will. It has been a highly lucrative sector for both the central government, party-affiliated parastatals, top-party elites and individuals and businesses with deep political connections. The lucrative business does not only emanate from a mere possession of land and real estate but also from the shoddy deals and access to lucrative bank loans.

Corruption as a Major Cause for the Roaring Real Estate Prices

The ruling party effectively owns all of the country's land, coupled with the "ownership" of the [commanding heights of the countries productive resources](#) by the numerous [party-owned conglomerates](#) subsumed under [EFFORT](#). Currently, a significant portion of popular anger coming out of the private investors happens to be directed towards the state owned military industrial complex ([Metals & Engineering Corp.](#) -MetEC) as a result of its deep entrenchment with [corruption](#). Thanks to the monopolistic ownership of both the rural and urban land by the state, the rising real estate market and property prices have been vital sources for both the central government and corrupt cadre elites. The monopolistic ownership of land by local officials is also manifested by self-dealing (the sellers and appraisers being one and the same) which in turn has led to skyrocketing real estate and rental prices, making [Addis Ababa one of the most expensive cities](#) in the world to buy property. From time to time, the same local officials are observed in raiding and bulldozing of entire villages (in and around the capital and elsewhere), uprooting thousands of residents at time. A greater proportion of the evictions are in the form of [forced](#) methods, even though a limited of them seem to be "[induced](#)" ones. Local corrupt cadres and officials then sell the confiscated real estate properties piece-by-piece at inflated prices to both local brokers and real estate developers ("housing cooperatives"), thereby making unbelievably high level profits. As captors of the lands, city administrators and members of parliament at times [toss around land proclamations](#) until they get their royalties and rents from land grabbers. Using their power to access cheap bank loans, the highly connected real estate developers and brokers convert the same illegally demolished neighborhoods to hotels, condominiums, shopping centers, etc. Local officials, many of them municipal appointees get their cut both in kind and monetary rewards.

In its chapter dealing with the land sector corruption, the World Bank ([Diagnosing Corruption in Ethiopia...](#)) tells us that the corruption conundrum is manifested in the form of “officials and intermediaries collect[ing] multiple transaction and service fees” (page 303), through the use of “...weak policy and legal framework and poor systems to implement existing policies and laws... fraudulent actions to allocate land to themselves in both urban and rural areas and to housing associations and developers in urban areas” (page 305), by fraudulently forging land documents and illegally selling record rights (page 303), creating opportunities for officials for profiteering (page 307), etc.

What I am describing here are the same folks that the late Prime Minister Zenawi, in his February and March 2012 parliamentary addresses called “[elephant owners of corruption](#),” “thieves within the government” and “robbers within the people,” analogous to [eating one’s body like a wounded hyena](#). These are the same cadres and real estate owners that, again, the late Zenawi, in one of his public addresses which included many private business owners, chastised as corrupt. Raising his voice in a threatening manner, he told his audience that he happened to know that many of them own several real estate properties, registered under their names, their spouses, their small children and even under their dogs’ names. These are the same folks, in mid-2011, that Mr. Zenawi accused [stashing \\$2 billion](#) in overseas banks and/or real estate assets. These are the same cadres that government communication spokesman Getachew Reda, now tells us are involved in ‘[massive corruption](#),’ albeit stating the obvious in his attempt to mollify the discontented and implicate the wavering and betraying cadres and perhaps preparing the ground to purge them out of party leadership.

The land and real estate property capture has a vicious circle: Administrators conspire which part of city land to be taken away and which village to be demolished; brokers connect party hacks and local administrators with real estate developers (so-called housing cooperatives) and members of the diaspora; political party-owned firms and party loyalists, in collaboration with banks (whose large portion of business activity is in the real-estate sector), allow their folks to borrow funds at negative real interest rates. Each one of these interconnected groups get their cuts, while those evicted, after crying foul for a while, just “disappear!”

The Diaspora and Remittances Exacerbate the Corruption Conundrum

One can list a number of factors, both positive and negative (theoretical and practical) regarding the role of remittances (i.e. funds sent by the diaspora community back home). Here, we focus only on the issue at hand- illustrating some of the observed factors for the rapidly rising property values in Addis Ababa and, to some extent, other regional cities.

Mystified observers repeatedly ask me why property values in Ethiopia not only are already so high but absurdly skyrocket on a continuous basis. Their next question is: “Isn’t this phenomenon a bubble and when do you think it will burst?” Then, they wonder why the Ethiopian Diaspora is so oblivious to corruption and why the same folks are largely in real estate investment (and not in establishing sustainable factories, extraction of mineral deposits, provision of electricity and telephone services, etc.). They are mystified because, under normal circumstances, real estate investors are supposed to weigh in the returns and risks associated with

land-related investments (evaluate the fair-cash-on-cash flow of their investments). That is, the returns of the cash-flow rights to the acquired real estate (expected rate of return) should be one of the major considerations. Secondly, in addition to seriously weighing in the riskiness of an illiquid asset (i.e., real-estate), one has to be concerned with getting involved with the ongoing corruption conundrum. Such a calculation should reveal to them the future flows that the buildings and land are expected to generate, enabling them to compare the returns and risks of their real estate related investments to alternative ones- i.e., liquid financial assets such as stocks, bonds, and CDs which are available to them in the countries they migrated into. Thirdly, in an attempt to minimize the cost associated with attending the acquired properties, proximity to the property must be factored in. Under normal conditions, real estate prices and investments are also driven by the cost of credit.

As it turns out, what is transpiring in Ethiopia happens to be anything but normal or rational. For one, a good portion of the money “invested,” particularly the portion spent on residential structures is ill-gotten, thereby making real estate the home of laundered cash and as a means to cleanse money collected illegitimately. Secondly, the door for other avenues of investment requiring private entrepreneurial endeavors are closed by the Developmental State economic mantra and practice. This fact makes investing in real estate the only option available to citizens. Consider also the real estate “investment” made by a good portion of the diaspora: As indicated above, one of the factors that the “investor” should seriously consider is minimizing the amount of time and money that he/she would spend for attending the property. Our anecdotal but repeated observations of diaspora “investor” behavior (which includes several close friends and relatives) indicate that such thoughts never occur to them. They never consider the thousands of dollars they repeatedly spend every time they travel to the country to attend “their” property, pay taxes and [submit their fingerprints](#). If this is not enough, many of these same folks end up being defrauded by the government agencies (a cunning plan also applied in many parts of Sub-Saharan Africa, such as [Zimbabwe](#)), by their investment advisors, real estate brokers and even the [sellers](#). The scamming of home buyers by the real estate developers is indeed an [astoundingly common](#) practice in the country. Even though many of them regretted after the fact, my anecdotal findings and extensive review of the popular version of the literature indicate that a good deal of the diaspora’s engagement in residential real estate investment is largely for its sentimental values, not financial gains. Even though a select few have found ways to enrich themselves, most happen to be building/acquiring residential (“retirement”) structures that they will never use ([nor would it make any sense to do so](#)).

Role of Negative Interest Rates and Rising Inflation Rates

Two other factors which have played a big role in driving up real estate and property values are negative real interest rates and rising inflation rates (both of the ruling party’s own making). In addition to discouraging saving, negative real interest rates encourage borrowing and, as a result, have been a means of transferring income from savers to borrowers. As it turns out, many of the borrowers happen to be political party-owned companies and those involved in real estate and related illiquid assets. Rising inflation rates also encourage speculation and the desires for holding commodities and precious metals. Since neither commodities and precious metals nor stocks are available in the Ethiopian case, speculation is largely on land and related assets. Real estate holdings also serve as hedges against rising inflation. For, inflation in general does not

erode the (intrinsic) values of real assets such as real estate and precious metals. In general, the prices of precious metals and resale values as well as the rental rates of properties rise in tandem under such circumstances. At a time of rising inflation, land, bricks and mortar are considered safe investments.

Cornered Market

Monopoly position of land ownership by the government has enabled government officials and party-affiliated individuals to effectively corner the real estate market. The cornering emanates not only from the monopolistic access and ownership of land, but also from low interest loans and the funneling of diaspora funds to a certain investment groups who happen to be loyal to the ruling party. As it turns out, such a cornering activity also involves transnational diasporic finance. It is an open secret that, when it comes to the Ethiopian situation, nearly all major remittance intermediary business agencies are either directly or indirectly owned by the ruling party, elite cadres and persons with close ties with the government, which funnel the diaspora funds to kin and party affiliated investments back home. As practiced, the local authorities evict citizens out their lands, forcing them to leave their country of birth to seek for employment abroad. This act is a concerted policy of the government to sell people to enhance remittance flows. Their collaborators residing outside of the country funnel remittances towards certain preferred routs which are owned by individuals and firms highly connected to the ruling party. As Professor [Minga Negash](#) and [myself](#) have illustrated elsewhere, a large portion of the human traffickers happen to be individuals who have close ties with the ruling party. The process is effectively a vicious circle: The government policies directly or indirectly force citizens to leave their country in droves; human traffickers, a good portion of them licensed and very close to the ruling party, facilitate the migration process; business intermediaries facilitate and direct remittances to favored coffers- all designed to remain in power and make money. This disdainful and mafia type of practice has been revealed by the practices of Ethiopian authorities and consulate representatives during 165,000 plus Ethiopian migrants from [Saudi Arabia](#) and the aftermath of [slaughtered](#) Ethiopian Christians by Libyan religious fanatics. When outraged Ethiopians turned the government sanctioned demonstrations for protest against the killings of Ethiopian Christians in Libya, the ruling party [used force](#) against the outraged demonstrators, the beatings resulting in several [injuries](#)). It is interesting to note that the failure of the ruling party to demand the Saudi authorities to be accountable for their mistreatment and slaughtering of Ethiopian migrants even seem to confounded its loyal [supporters and apologists](#).

Conclusion

Economic activity under the current Ethiopian government has largely focused on infrastructure building and the service sector (which include real estate development). Building infrastructure is indeed vital, especially for a developing country like Ethiopia. Unfortunately, undue emphasis on the aforementioned sectors not only will be unable to lead to prosperity, this writer believes that the policy has led to macroeconomic imbalances and is the cause for the ongoing skyrocketing real estate and property prices. The rise in property values and rental rates have resulted in the [pricing and driving out](#) of a huge majority of residents of Addis Ababa and other major regional cities. No doubt these have resulted in the transfer of wealth from the poor to the

rich, thereby increasing the income gaps and public discontents. It is imperative, therefore, for the ruling party to address these serious issues. This writer believes the solution lies in designing land and urban policies, which should include changing the constitution that dramatically affects the ownership of land.