Affordability of Residential Houses among Low Income Earners in Ibadan

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Abstract

The paper examines affordability of Residential Houses among Low Income Earners in Ibadan, Oyo State, Nigeria. Public Housing as social good which is targeted at the poor was highlighted. Income levels of residents of Owode Housing Estate and Ajoda Housing Estate in comparison with rent paid was used in determination of the affordability of Residential Houses among Low Income earners. Descriptive statistics- frequency count was adopted in data analysis. The result showsonly 17.4% paid above 30% of their income on rent and most (82.6%) paid above 30% of their income on rent in the two estate. The study therefore concluded that housing is affordable to low income earners in the study area. Despite this, the study recommends strict screening of alloteesof the housing estates in ensuringtotal occupation by the low income earners; and construction of more housing units to force down house rent and makes them totally affordable.

Keywords: *HousingAffordability, Low Income, Public Housing, Ibadan*

1. Introduction

Housing is defined as a permanent structure, a dwelling place for human habitation (Williams, 2007; Adenubi and Windapo, 2007). Housing being one of the basic necessities for human beings is ranked second after food (Olayiwola, Adeleye and Ogunsakin, 2005; Omole, 2010; Ayedun and Oluwatobi, 2011). It is a major yardstick for measuring man's welfare, life sustenance and survival (Onibokun, 1985; Ayedun and Oluwatobi; 2011). Housing affordability is generally determined by proportion of income spent on rent. The amount spent on rent must not be more than 30% of income of tenants for houses to be affordable, otherwise it is considered

as cost burden (Commonwealth of Australia, 2012; Andrew, 1998; US Department of Housing and Urban Development, 2004; Canada Mortgage and Housing Corporation, 2002; Queentown of Lakes District Council, 2007).

Rapid growth of urban population increased demand for housing; which are not met by existing housing supply thereby creating housing deficit (Hussain, 2003) and subsequently high rent.This is more glaring and pronounced in our cities and urban areas; the poor and low income earners are most affected as they constitute 72% of those in housing need (UN HABITAT, 2003). Olotuah 2006 affirmed that low income earners are priced out of housing market because of their inability to make effective demand. Demand of housing being greater than its supply as a result of urban population growth (Anacker, 2019; Makinde, 2014) forces up the housing price and makes it not within the reach of low income earners.

This research is of utmost important for two basic reasons. First, is the place of housing on human needs and the centrality of its subset "affordability", update on the subject would be useful to the Government and policy makers in their various housing policies with its attendants' benefits to the urban dwellers especially the low income earners. Second, most research on the subject matter have been carried out in Lagos because of its explosive population, Ibadan being the biggest city in West Africa has seriously witnessed enormous population growth in the recent time as a result of spillover effect of Lagos and improvement of its commercial activities.

The central theme of this paper is to investigate affordability of Residential Houses among Low Income Earners in Ibadan with a view to providing information and action plan for Government and policy makers and non-profit housing suppliers usage in their housing decisions. The choice of Ibadan is informed by its rising population, centrality as regional headquarters of the South West and likely influences. The rest of the paper has four sections. Section twodiscussed Housing Affordability, the main unit of analysis, section three provides data source and methodology adopted by the study, while section four provides results and discussion. Finally, section five provides conclusion and recommendations.

2. Housing Affordability

Housing affordability is generally determined by proportion of income spent on rent. Simple ratio measure based on housing expenditure and income are usually adopted for assessment of

housing affordability. Affordable housing is one whose rent/prices is not more than thirty percent (30%) of occupant income (Commonwealth of Australia, 2012; Andrew, 1998; US Department of Housing and Urban Development, 2004; Canada Mortgage and Housing Corporation, 2002; Queentown of Lakes District Council, 2007). It is considered as cost burdened if more than 30% of occupants' income as occupant may find it difficult to afford other necessities such as food, clothing, transportation and medical care (US Department of Housing and Urban Development, 2004).

Mulliner and Maliene (2012) in addition to the traditional measurement of affordability using rent-income and price-income ratio identified 18 other variables for affordability determination such as interest rate and mortgage availability, availability of rented accommodation, availability of low cost home ownership products, availability of market value home ownership products, safety (low crime rate), access to employment, access to public transport services, access to good quality education/schools, access to shopping facilities, access to health services, access to early year child care, access to leisure facilities, access to open green public space, presence of environmental problem, quality of housing, energy of efficiency of housing, waste management and deprivation in area.

Gan and Hill (2008) explained the distinction between the concepts of Purchase affordability, Repayment affordability and Income affordability. ''Purchase affordability considers whether a household is able to borrow enough funds to purchase a house. Repayment affordability considered the burden imposed on a household of repaying mortgage. Income affordability simply measures the ratio of house prices to income. The former two concepts include additional parameters that describe the down payment ratio, the per period mortgage payment-to-income ratio, the length of the mortgage and the mortgage interest rate. All these parameters are fixed for repayment affordability with the exception of the mortgage interest rate. By contrast all the parameters in the purchase affordability formula adjust the changes in the mortgage market such as a loosening of credit restrictions''.

 World Economic Forum (2019) identified three approaches used to measure affordability of housing namely; the Meridian multiple method which considers housing affordable if the median house price is less than three times median household annual income. Second; the housing cost burden method considers housing to be affordable if households spend under 30% of their income on housing (mortgage payment, or rent, rates, taxes, household, insurance, repairs and maintenance, energy costs). Third, the residual income method subtracts the cost of meeting

basic necessities from household income and uses the remaining "residual" income as the household capacity to spend on housing. This approach is primarily used by commercial banks when evaluating mortgage applications.

The three approaches have their merits and demerits while Median and multiple is easy to evaluate and allows comparison of housing affordability across countries and within a country over time. It has disadvantage of ignoring the role of credit. Housing cost burden considers the effect of leverage and non-housing expenditures of household and also allows comparison of housing affordability across countries and within a country over time. Its deficiency lies in its rigidity on threshold of 30% and the effects of differences in the cost of living and repayment structure of mortgage across countries on accuracy of cross country comparison.

 Residual income approach considers the effect of leverage and the household spending patterns and more reflective of a household's ability to purchase a house. Its deficient in cross country comparability and requires detailed data on household income and attributes cost of living and housing costs.

International organizations have contributed to the subject matter of housing affordability because of its importance to human survival. UN-HABITAT (2003) affirmed affordable housing as "housing which is adequate in quality and location and does not cost so much that it prohibits its occupants from meeting other basic living costs or threatens their enjoyment of basic human rights". This assertion is corroborated by UN- General Assembly (2016) which posited housing affordability as the attainment of satisfaction of other basic needs that is not threatened or compromised by the costs associated with housing; ensuring housing-related costs are consummate with income levels.

There is quantum of literature on Affordability of Residential Houses among Low Income Earners in Nigeria and beyond. Anacker (2019) posit that solving the problem of affordable housing mostly occasioned by increase and increasing demand for housing may be difficult through government and policies. Some of the measures suggested are building on urban land hitherto zoned for other uses, addition of housing units to single family or underutilized urban land, accelerating land use approvals, funding affordable housing, attracting new investors in affordable housing, reducing operating cost in housing amongst others.

Housing affordability is predominantly government initiatives, according to McClure (2019) the government of United States of America (U.S.A) adopted housing vouchers program to assist

poor renters households secure affordable housings units by being made to pay 30% of rent and utilities while the program pick the remainder. The snag in the program is its inability to desired spatial immobility as the participating households tend to remain in the poverty striving neighbourhood with few employment opportunities.

Affordable housing in Germany was achieved through government traditional housing policy tools of organisation, urban planning, land allocation and subsidies (Hanson, 2019). This is largely supported by influential politician promotion of housing construction as a result of incentive created by their housing market. In Australia provision of affordable housing was structured around non-profit organisation (Pawson et al, 2019) in addition to improvement of physical conditions of rundown existing public houses and infrastructure. These organisations are cost effective in their operations.

Domestically, Ajayi et al (2016) corroborated that housing deficit as the bane of housing affordability as its demand outweigh supply and was primarily caused by land inaccessibility, poor financial and mortgage system and menace of miscreants (omoonile). Contrary to Anacker (2019), government policies were postulated as measures to ensuring affordable housing. In addition to this is introduction of cost saving housing design, anti-corruption measure and responsive judiciary.

Olotuah (2006) suggested a bottom up participatory approach which should involve local housing cooperatives and associations, local government councils and rural communities for determination of real needs of the group of people thereby factoring cultural tradition in housing provisions. Ajayi et al (2020) study on affordable housing for low income masses in Lagos state identified high poverty rate, unemployment, poor living conditions as factors preventing access to affordable housing while factors mitigating provisions are land acquisition cost, price of land and cost of building materials, inadequate finance, national housing policy and infrastructure; and recommended that government makes acquisition and titling of land friendly to encourage developers to produce housing units.

3.Data Sources and Methodology

The study adoptedadministration of questionnaire for primary data collection, while Secondary sources of information are obtained from Journals and Periodicals. The study population for the comprises residents of Owode and Ajoda Housing Estates Ibadan. The choice of the two estates for the study is to confirm if the residents are actually low income earners as gazettes by Oyo

State government.   Survey reveals 250 housing units and 119 housing units in Owode and Ajoda Housing Estates respectively. Systematic random sampling was adopted using 2th term was adopted in selecting respondents of Owode Housing Estate while total population of Ajoda Housing Estate was observed. Therefore, a sample size of 125 and 119 was arrived at and use for the study. The survey achieved a total response rate of 87% (109 respondents) and 88% (105 respondents) in Owode Housing Estate and Ajoda Housing Estate respectively. The questionnaire was mainly structured to elicit information on the socio demographic characteristics of the respondents such as gender, educational status, family size, gender, current housing status and cadre and most importantly income level of the occupant and also property details such as type of accommodation, rent paid (monthly and annually),percentage of rent paid on incomeData was analysed with descriptive -frequency counts statistics, percentage of income spent on rent.

4.Results and Discussion

SOCIO-ECONOMIC CHARACTERISTICS OF THE RESPONDENTS

Table 4.1: Level of Education

Level of education	No. of respondents	Percentage of respondents
Primary School Testimonial	6	2.8
O' LEVEL/School Certificate	34	15.9
NCE/OND	39	18.2
HND/B.Sc	98	45.8
M.Sc/MBA	26	12.1
Ph.D	1	0.5
OTHERS	10	4.6
Total	214	100

Table 4.1 reveals that majority of the respondents in the study area have attained tertiary education. Only 2.8% of the respondents have not attained up to secondary education. Education influences economy, since the level of education largely determines employment type, which in turn influences income level.

Table 4.2: Household Size

Size	No. of respondents	Percentage of respondents
1 -3	89	41.6
4 – 6	124	57.9
7 – 10	1	0.5
Total	214	100.0

Table 4.2 reveals that 57.9% of respondents had households with four to six people, 41.6% have households with one to three people, and 0.5% have households with seven to ten people. Thisreveals that majority of housing unit has occupancy ratio of 4 to 6 people.

Table 4.3: House type occupied by respondents based on number of rooms

House type	No. of respondents	Percentage of respondents
A room and a Parlour	5	2.3
2 bedroom flat	122	57.0
3 bedroom flat	75	35.0
Others	12	5.6
Total	214	100

The result in **table 4.3** shows that 57.0% of the respondents in the study area live in 2-bedroomflats, 35.0% occupied 3-bedroom flats while only 5.6% of the respondents live in houses with more than three rooms. This implies that 2 Bedroom flats ate prominent accommodation in the study area.

Table 4.4: Mode of house possession in the two Estates

Mode of house possession	No. of respondents	Percentage of respondents
Landlord/Owner	82	37.4
Tenant	132	62.6
Total	214	100

Table 4.4 revealed that 37.4% of the respondents were Landlord/Owner while 62.6% were tenants. This reveals that the study area is more tenanted than being owners occupied.

HOUSING AFFORDABILITY

Table 4.5: Income level of respondents

Income range (#)	No. of respondents	Percentage of respondents
No Income	7	3.3
#360,006.36 – #552,370.08	118	55.1
#450,937.32 - #1,070,796.60	20	9.3
#858,066.84 - #1,967,360.28	31	14.5
#2,011,559.52-#2,467,414.92	16	7.5
Others	22	10.3

According to **Table 4.5** the lowest income range in the study area is between#360,006.36 – #552,370.08 and is earned by 57% of respondents while the highest income range which is between #2,011,559.52-#2,467,414.92 is earned by 7.7% of the respondents. The result implied that a large proportion of the households are low-income earners.

Table 4.6: Average Annual Rent paid by tenants in the housing estates

Average Annual	Owode Estate	Ajoda Estate	Total
Below #100,000	0(0.0)	9(6.8)	9(6.8)
#100,000 - #150,000	32(24.2)	51(38.6)	83(62.9)
#150,000 - #200,000	0(0.0)	7(5.3)	7(5.3)
#200,000 - #250,000	18(13.6)	7(5.3)	25(19.0)
#250,000 - #300,000	4(3.0)	0(0.0)	4(3.0)
Above #300,000	4(3.0)	0(0.0)	4(3.0)
Total	58	74	132

According to **Table 4.6,** only 6.8% of respondents pay annual rent that is below N 100,000, next to this is annual rent betweenN100,000 - N150,000 which is paid by most (83%) of tenants, the

highest range which is above N300,000.00 is paid by the least (3%) of tenants. This reveals that most housing units are of low rent paying rent.

Table 4.7 Measuring housing affordability using expenditure to income ratio approach

Ratio of Income on Rent	The two Housing Estates		Grand Total	Percentage of income spent on rent by Ajoda respondents	Percentage of income spent on rent by Owode respondents	Total Percentage ofincome spent on rent by respondents of both Housing Estates
	Ajoda Housing Estates (No.ofres ponders)	OwodeHousi ng Estates (No. of respondents)				
6%	8	-	8	10.8	0	6.1
10%	-	3	3	0	5.2	2.3
11%	4	-	4	5.4	0	3.0
13%	4	-	4	5.4	0	3.0
16%	18	-	18	24.3	0	13.6
19%	-	3	3	0	5.2	2.3
22%	5	-	5	6.8	0	3.8
23%	3	-	3	4.1	0	2.3
27%	24	32	56	32.4	55.2	42.4
30%	4	1	5	5.4	1.7	3.8
36%	-	1	1	0	1.7	0.8
38%	4	-	4	5.4	0	3.0
49%	-	14	14	0	24.1	10.6
66%	-	4	4	0	6.9	3.0
Grand	74	58	132			

Total				5.4%/95.6%=100	32.7%/69.3%=100	17.4%/82.6%=100%

Note: Spending more than 30% of income on housing is considered unaffordable and cost burdened.

The result from **Table 4.7** as highlighted in bold italics reveals that in Owode housing estate 69.3% of the respondents spend 30% or less on rent while 32.7% spend over 30% of their annual income on rent; comparatively in Ajoda Housing estate, 95.6% of the respondents of spend 30% or less on rent while paltry 5.4 % spend over 30% of their annual income on rent. Cumulatively, 82.6% of the respondents of the two housing estates spend 30% or less on rent while 17.4% of the respondents spend over 30% of their annual income on rent. This reveals that houses are more affordable to tenants of Ajoda housing estate than Owode housing estate. Cumulatively, rent are affordable to tenants of the two housing estates as only 17.4% paid above 30% of their income on rent and most (82.6%) paid above 30% of their income on rent.

Conclusion and Recommendation

The study presented and analyzed socio economic characteristics of residents of the two housing estates; Owode and Ajoda Housing Estates, Ibadan in and rent affordability matrices; income of tenants versus annual rent paid. The two estates share striking similarities in terms of types, layout, locations of housing units and rent passing. The study concluded that that houses are more affordable to tenants of Ajoda housing estate than Owode housing estate. Cumulatively, rent are affordable to tenants of the two housing estates as only 17.4% paid above 30% of their income on rent and most (82.6%) paid above 30% of their income on rent. The study recommends strict screening of allotees of the housing estates in ensuring total occupation by the low income earners; and construction of more housing units to force down house rent and makes them totally affordable.

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