ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

THE ASSESSMENT OF CONSTRUCTION FINANCING IN ADDIS ABABA: WITH EMPHASIS RESIDENTIAL REAL ESTATE DEVELOPMENT

BY: AZEB MEHARI

JUNE 2023

ADDIS ABABA

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A THESIS SUBMITTED TO ST. MARY UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR DEGREE OF MBA ACCOUNTING AND FINANCE

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June 2023

Addis Ababa, Ethiopia

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FACULTY BUSINESS

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ID:-SGS/0192/2014A

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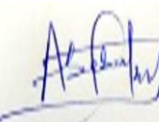
DECLARATION

I hereby declare that the work which is being presented in this paper entitled: "The Assessment of Construction Financing in Addis Ababa: With Emphasis on Residential Real Estate Development" is my original work, has not been presented for a degree in any other university and that all sources of material used for the thesis have been duly acknowledged.

Azeb Mehari   **Signature**

St. Mary's University, Addis Ababa   **June, 2023**
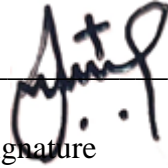
ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as university advisor.

Asmamaw Getie

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Advisor   Signature

St. Mary's University College, Addis Ababa   **June, 2023**

Acknowledgments

First, I would like to express my gratitude to the **ALMIGHTY GOD**, who has granted me the ability, opportunity and will to start and complete my study.

Mainly, I would like to thank my advisor, **ASMAMAW GETIE (PhD)** for his advice and constructive comments towards the preparation of this paper.

The gratitude also goes to my boss **ATO TEFERRA MENGESHA** who is also a mentor, a father figure, and a guide who helped me through my study and in the preparation of this paper with his comments, unwavering support, and encouragement. It would have not been possible to accomplish this without you – THANK YOU.

I also like to thank My class and team mates for their support and encouragement. I extend my love and appreciation to My Family. Finally, I want to send my thanks and love to my colleagues and staff of **W.T CONSULT PLC.**

I am also thankful for those who helped me in providing the required data and information needed for the study.

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ACRONYMS AND ABBREVIATIONS

CBE	Commercial Bank of Ethiopia
CDC	Common wealth development corporation
GDP	Gross Domestic product
NAR	National Association of Realtors
NBE	National Ba0nk of Ethiopia
MUDCo	Ministry of urban development and construction
USAID	United states agency for international development
VCs	Venture capital companies

ABSTRACT

The purpose of the study is to assess the construction financing in Addis Ababa with emphasis residential real estate development. In attaining the goal of this research, the methodologies used quantitative and qualitative research approach through literature review data collection, analysis and discussion. The data collection was done through questionnaire and interview .The research methodology incorporate the involvement of different real estate developers .The analyzed data was presented using percentages and frequencies in table form .The result shows that major sources of financing for real estate housing development are equity finance and collection from home buyers. Other sources of financing are not adequately providing funds to home buyers and developers to finance their housing projects. Due to shortage of financing, the real estate developers couldn't be able to supply housing in sufficient quantity in timely basis as per the requirement. To improve the availability of financing, people with high income level have to be encouraged to save money and buy home from real estate developers. It is also important to nurture equity capital market for better financing options in the long run. To encourage a more diverse and better supply of housing finance, there is a need to create conductive environment for foreign financers.

Key Words: House financing, Problem of housing, Real estate project performance

Chapter One

1. Introduction

1.1. Background of the Study

Introduction

In Ethiopia, the construction industry has become a dynamic source of growth and job creation, particularly since the mid -1990's. According to statistics provided by National Bank of Ethiopia (NBE), the construction sector contributes about 7 (seven) precent to Gross Domestic product (GDP), while also accounting for over 70 precent of industrial output (National Bank of Ethiopia, Annual Report,2021).yet despite the growing importance of the construction industry, it faces major challenges, one of which is the huge financial need and lack of viable alternative sources for project delivery, with heavy dependence on a limited range of offerings by the commercial banking System.

The real estate sub- sector plays a critical role in meeting housing needs for a rapidly growing population about 2.8 precent per annum in Addis Ababa

The welfare and development of humans depend on adequate housing. It offers people a place to live comfortably with shelter, security, comforts, and solitude. While poor housing has negative effects like disease, immorality, and juvenile delinquency, good housing reflects the community's overall well-being. Additionally, investing in real estate advances economic expansion. (Capital, 2011)

It is well acknowledged that the growth of the housing industry is essential to overall economic development. The real estate sector is the best predictor of economic growth and a country's level of wealth in any economy. (Terry.d)

Due to its complexity and, to a large part, its capital-intensive nature, housing construction requires sustainable source of finance. Property development is accelerated by the necessary availability and accessibility of real estate financing. Because of this, it's crucial to ensure that investors and people of all income levels have access to home financing (UN-Habit, 2016)

Much of the literature and research on construction in Ethiopia has focused on broad thematic areas, lacking an in − depth investigation into existing sources of financing, evaluation of the suitability of the terms and conditions, as well as the opportunity to explore alternative sources. According to a recent real by Access Capital Report, Ethiopia's real estate market presents both opportunities and challenges. Land policies, the lack of and high cost of

building materials, huge infrastructural gap, and funding constraints are the main challenges facing the business (Piper, 2016). In general, there is evidence that construction financing has been understudied. The main objective of the research is to find out sufficient information on sources of financing to building, construction, with emphasis on real estate residential, the factors or variables that influence financing options, and the major challenge facing the building construction industry. Given the importance of the industry, it would be critical to discover the core elements of the challenges, based on the identification and analysis of the key variables related to lack of initial investment, pre collection from clients, shortage of long-term loan, Effect of inflation & interest rate, unavailability of land, in the search for possible solution to improve performance through alternative source of financing investments.

The research findings will be beneficial to provide feedback of information to relevant government institutions, real estate developers, commercial and development banks, contractors, insurance companies and research centres, to improve the environmental for developing combination of viable sources. It is expected that the findings will also shed light on the linkages between the impacts of financing on promptness in delivery of works, risk sharing, reduce the problem of delays in compulsion and abandonment, and the prospects for improvements in investment returns.

1.2. Statement of the Problem

Demand for residential housing in Ethiopia especially in Addis Ababa had risen over the past few years. It has become uncertain for the public sector to solve an escalating urban housing demand along with doubling of the current population in Ethiopia, over the coming three decades, high demand for residential housing on the one hand, and low supply of real estate housing supply on the other hand which have pushed price beyond the reach of most residents in the country (Capital, 2011).

International evidence indicates that financing is critical for every construction project. Real estate development is capital intensive and requires sustainable form of financial resources to meet target and achieve objective. Over the recent past there have been large increases in non-bank operation with a real impetus for the development of housing schemes, such as real estate development. Although there has been growth in financing of real estate development, the level of financing has not kept up with the rapidly rising demand. What is fundamental is the recognition that there is gap in the level of understanding of the financing of real estate development and the real root causes for the major challenge and their impacts, as clearly shown from the literature review (UN-Habit, 2016).

A brief literature review has provided the basis for the background, the problem statement and research questions. The evidence from the literature indicate that knowledge gaps exist, particularly regarding the key variables that influence performance in the financing of real estate development in Ethiopia, with particular emphasis on Addis Ababa.

The majority of other criteria, including technological prowess, timely supply of supplies and skilled labour, and institutional competence, are either directly or indirectly tied to funding, which basic rationale for the research. This thesis paper focuses on the effect of financial challenges related to housing finance, identifying the sources of funding for real estate housing development projects, assessing whether they are sufficient or not, and examining how the difficulties encountered have an impact on the projects. This is critical as financing would continue to impose constraints in rapid expansion of housing supply to meet rising demand.

1.3. Guiding Research Questions

This study aimed at answering the following research,

1. What are the major financial sources for real estate developers?
2. Are the sources of finance adequately provide and meet the financial requirement of housing development?
3. What are other main challenges of access to finance, in real estate investment in Ethiopia?

1.4. Objectives of the Study

General objective

The main objective of study is to assess the Effect of financial challenges on real-estate developments in Addis Ababa

Specific Objectives: The specific objective of the research includes the following:

- To evaluate the major finance sources of investment for real estate, particularly residential real estate

- To explore the adequacy of supply of finance to meet rising demand, and

- To identify the prominent challenges in real estate investment in Ethiopia with regard to access to finance?

1.5. Scope of the Study

The scope of this study was restricted to the Addis Ababa city Administration as real estate investment in other parts of the country is limited. It concentrated on the current status of residential real estate development and its difficulties in obtaining land and funding for housing projects. The research does not cover real estate projects that are involved in constructing elaborate structures for commercial use, and industrial development.

1.6. Significance of the research

This study is mainly conducted for the purpose of academic reasons, as part of partial fulfilment of master of accounting and finance, while the overall findings of the study are expected to provide substantive information to key stakeholders including the investors or the real estate developers and thereby contribute, to bridge the apparent knowledge gap. It also indicates possible research areas that deserve further investigation, including more favourable and viable financial options, in relation to the type of demand, the housing schemes classified by market segmentation, and more efficient construction technology and methods.

1.7. Limitation of the study

The many employees in the selected organization refuse to take questioners calming time constraint .Even those who took questionaries to complete had taken several days. Therefor the researcher had to wait several days to collect the questioner hence, the time and unavailability of some Financial and General Managers due to some officer's work were among major constraints faced by the research during conducting of their study. This may have delayed the analysis and inclusion of some relevant finding

1.8. Structure of the thesis

The research is organized in five chapters. The first chapter is on introduction, statement of the problem, research questions, objective of the study, scope of the study, and significance of the study, while the second chapter discusses literature relevant to the study that focus on thematic and sub themes. The third chapter present the methodology of the research that covers data types and sources, sampling size determination, and, method of data collection. Chapter four is devoted to the analysis and presentation of the findings, and their interpretation and significance interpretation. The fifth chapter provides a summary picture of the research and highlights the key findings and recommendations.

Chapter Two

2. REVIEW OF RELATED LITERATURE

2.1. Introduction

The chapter aims at outlying the analysis of the existing knowledge and other researcher works from electronic sources, reports, research papers and other documents in order to know the concept of real estate, the scope of real estate financing and empirical evidences of real estate financing in the literature review as part of the thesis. The review has provided the basis for classifying the research problem, with particular emphasis on the determinists of access to finance for investment in real estate.

2.2. Meaning of real estate

Modern definitions show that, real estate refers to the property and fixtures together, as opposed to real estate, referring to the land's ownership right. Investors have a new meaning to real estate which refers to land as well as anything permanently attached to the land, such as buildings, or even property that is stationary or fixed in position. (Aqubamicheal, 2009).

Residential properties, vacant land, and various types of revenue property, such as offices, warehouses, apartment complexes, and condos, are all considered to be real estate. Given the commonality, all the authors agree that real estate is defined as identifiable, physical land. They further stated that real estate includes any structures, improvements, and fittings that are permanent to the ground (Brueggeman, 2011)

According to (JIMA, 2018) real estate is an artificially delineated space term that refers to a fixed point (Selam, 2016) it is designed to house an economic activity that is influenced by cultural preference and is limited by the public infrastructure. From the perspective of another investigation (Aqubamicheal, 2009) real estate includes properties such as residential homes, raw land, and a variety of income generating properties, such as warehouse, office and apartment buildings, and condominiums (Aqubamicheal, 2009) noted that all authors defined real estate as tangible and recognizable land, which also includes all fixtures, improvements, and structures that are considered permanent to land.

2.3. Types of real Estate

According to (Anacker, 2019) five real estate markets can be identified to correspond to five categories of property as briefly described as follows,

Residential: - Residential are individual, family, and group dwellings are all included in residential real estate. The most typical kind of real estate is this one. Single-family homes, apartments, condos, townhouses, and various housing arrangements fall under the category of residential. The primary application of this kind of real estate development is for habitation. To guarantee that residential land development attracts potential homeowners, a variety of things must be taken into account. For instance, security and the availability of soil amenities are key considerations when deciding how to develop a plot of land (Terry.d) **Commercial**: **-** According to (Kwan.J, 2015) this relates to real estate that is only utilised for commercial reasons. One of the three main forms of real estate is commercial real estate. Most companies that use commercial real estate rent their premises. The building is often owned by an investor, who also receives rent from each business that uses it. This includes office buildings, professional and service industry hubs, shopping malls, wholesale markets, hotels, and motels.

. **Industrial:** - According (Kwan, 2015) all lands and buildings used for heavy and light manufacturing, for storage, and for the production of goods are considered to be industrial property. The manufacturing, storage, and distribution of goods and services are all included in the industrial process, which transforms raw resources into completed items. This includes manufacturing facilities, storage facilities, and buildings used for research and development. (Martínez, 2018)

Agricultural: - Cropland, orchards, grazing areas, livestock enterprises, and forestry are among the properties utilised for agriculture. This is a reference to undeveloped land that is either utilised for agricultural, landscape design, or is let to develop organically in a rural region or a city, according (Terry.d) these forms of real estate projects might be unfenced open fields, urban lots, or private properties that are off-limits to trespassers. (Terry.d)

Special purpose: Property used by the public, such as cemeteries, government buildings, libraries, parks, places of worship, and schools.

2.4. Stakeholder in Real Estate Development

There are various players in the development process, key amongst them being:

Real estate developers Companies, governmental organizations, or people participating in the transfer of developed regions to customers (real estate buyers) are known as real estate developers. The majority of the times, real estate developers prepare tender contract agreements, monitor development from start to finish, and transfer developed regions to clients either through rental or sale. Some real estate developers, however, will take part in the planning and building of real estate developments themselves. Here in our nation, cases like these are frequent (Selam, 2016)

Real estate buyers: A prospective buyer who purchases a property in an effort to achieve the goal of owning their dream home and whose home must have the capacity to satisfy their needs and criteria with regard to their homes (Miniyahle, 2016)

Real estate lender: Real estate lenders are financial institutions who finance the real estate project with debt. Lenders play a major role in the industry as virtually all properties and developments use leverage (debt) to finance their business. Lenders can include banks, credit unions, private lenders, and government institutions. (Miniyahle, 2016)

Architects and consulting firms: are those who transform a developer's conceptual ideas into a design. Architects carry out this work in accordance with accepted norms and guidelines. In doing so, they should also follow the overall strategy. Following design, architects may participate in consultative activities. These tasks range widely and include working on behalf of developers, ensuring that construction is carried out in accordance with the design and the planned timetable, paying payments on their behalf, and performing inspections following preliminary and final acceptance. (Selam, 2016)

Contractors: are those who do construction tasks in accordance with established plans and specifications. Contractors are autonomous entities with a duty to carry out their tasks in line with the contract they have sworn to honour. Contractors in the context of real estate development may be distinct businesses engaged exclusively in construction or institutions engaged in both the building and marketing of developed buildings. Contractors are obligated by the general and particular conditions of the contract since, in the first scenario, they are signing parties. Failure to adhere to the guidelines may lead to contract termination or, in some cases, penalties in a court of law. (Miniyahle, 2016)

The Government: The government creates land leasing rules, sets up numerous administrative organisations at various levels, and occasionally constructs real estate properties, among other things. The government will hold the advantage, just as it does in

other industries. The government creates the legislative framework that each stakeholder uses to carry out their duties. (Menen, 2010)

Public service providers: These organisations are in charge of providing vital services including telephone, power, and water to real estate developers. Typically, contractors are in charge of these tasks. Before the project is finished, they make contact with these organisations and transfer a unit that is fully furnished with all necessary amenities.

More than the key players mentioned above, there are several more stakeholders. These professionals include producers and suppliers of building supplies, lawyers, accountants, market analysts, real estate agents, urban planners, and environmental experts. (DAGNE N. D., 2019).

2.5. Real Estate Finance

Real estate financing is basically the flow of cash and other investments which are critical for project delivery to meet material, equipment, labor and other resource requirements. It is a crucial component of contemporary real estate development, and the majority of large-scale developments could not have reached their current level without a significant amount of credit. Mobilizing funds and credit for housing construction is challenging in Ethiopia since the country's housing finance system is not diverse and sustainable. Any real estate development has finance at its core; a developer's capacity to rise sufficient financing for a project largely affects the success of the project. According to (Adesop.P.O, 2013) no matter the type of project, finance is a sine qua non and one of the most essential components. In essence, it serves as the fulcrum for development programmers, supporting the lever. (Adesop.P.O, 2013)

Due to the significant upfront costs associated with real estate development, developers typically look for funds to supplement their equity capital. Large developers typically have several finance agreements with various financial institutions. However, the industry is now so complicated and highly competitive that good project management is increasingly worried about how the source and makeup of development funding will affect control over a certain scheme. (DAGNE N. D., 2019)Real estate Source of Finance

It has been noted that real estate investments need a sizable initial cash outlay, which may be acquired from a variety of sources. Large-scale real estate projects are sometimes difficult to finance exclusively with personal savings; as a result, the necessity for other sources of funding, such as equity or self-financing, commercial banks, mortgage institutions, and

others, is avoidable. There are many sources of funding, and this research article will highlight a few typical sources.

Equity Financing As funds invested by people in businesses has the potential to lose value if the firm fails, equity capital is also known as risk capital. The fact that equity capital does not require repayment like a loan is its major benefit to investors. As a result, if the firm is successful, investors receive a portion of the profits and have some influence over the company's future course. In other words, it's a trade between the entrepreneur and the investor where the founder has the funds to operate the firm while the investor gains partial ownership. As a result, it also contributes to the main drawbacks of equity capital as the entrepreneurs are quickly ousted and lose control of the company. The following are some of the sources of equity capital:

Business angels People who invest money in start-up businesses in return for stock holdings are known as angels or private investors in the business world. They are either extremely affluent people with substantial resources or frequently business owners searching for promising startups and possible investors. Additionally, they search for start-up businesses engaged in industries in which they have professional and personal interests. As a consequence, businesses gain not only financial support but also their expertise, experiences, energy, suggestions, and network of contacts. Entrepreneurs should start by looking in their immediate area because angel investors frequently search for several businesses and virtually always invest locally. After using the resources from personal savings, friends, and other sources, angel investors are typically the best sources of funding for newly established businesses. In addition, it is a primary source in the early growing stage since at this time the businesses are not big enough to attract interest from venture capital c **Venture capital**: one method of securing startup equity finance is venturing capital. According to conventional wisdom, venture capitalists spend money logically whereas angel investors purportedly invest according to personal interests. Since they frequently make investments with little to no element of risk involved, the word "risk" does not exist in their operations. A successful investment is guaranteed by venture capitalists due to their expertise and commercial acumen. According to Scarborough (Allahar, 2014) venture capital companies (VCs) are private organizations that buy equity holdings in start-up businesses they think have the potential for rapid development and substantial profits. Investment does not, however, necessarily imply that it is always successful and low-risk. The qualified company will receive financial and wide-ranging support because, according to (Bruce .R Barrimger, 2010)"venture capitalists are extremely well connected in the business world...they have a large number of useful contacts with customers, suppliers, government representatives, and so forth." Additionally,

eligible start-ups must go through the venture capital firm's due diligence procedure. The due diligence process, in which start-up companies and venture capitalists collaborate to ensure a good fit from both sides, is seen as a crucial step in getting venture capital investment. Entrepreneurs of startup companies must perform due diligence and review the results before taking venture capital investment. Typically, most venture capital organizations don't invest in a company for a single time. Instead, they spend their money on various phases of the business.

Public stock sale: Initial public offering (IPO) is the term used to describe the process of selling shares of stock to outside investors in order to raise money. When it comes to raising significant quantities of money, an IPO is a successful strategy, but it is also time-consuming, expensive, and subject to numerous regulations.

Sources of debt financing: In contrast to equity financing, debt financing involves investors borrowing money, which they must pay back with interest, but they can still retain ownership of the company. The capital loans are particularly challenging to secure due to the high rate of lenders to investors. Additionally, the interest rate is higher because to the perceived risk associated with company investment. Here are a few sources of debt funding.

Mortgage and commercial banks: These are the main places where people borrow money (Ou, 2006)). Bankers want to see a sizable initial investment from owners, adequate cash flow to repay the loan, plenty of collateral to secure the loans, or a guarantee from organizations in the majority of investment instances (Peprah, 2016)The reasons why banks have historically been hesitant to make loans were also stated by (Yeboah, A. M., & Koffie, F, 2016). As was previously indicated, businesses are hazardous when they have insufficient collateral to satisfy lenders' usual requirements. (Terry.d) Bankers must also complete the due diligence procedure, examine the company plan, and assess the merits before approving a loan request. Bankers are unwilling to put in a lot of work for a meagre reward. However, several banks are aware of the possibilities for corporate expansion. They re-evaluate and change the financing requirements by putting more emphasis on cash flow and the calibre of the management team than on collateral.

International sources: They include private funds, public bilateral and public multilateral funds. Major providers of private funds include the Commonwealth Development Corporation (CDC), United States Agency for International Development (USAID) and the World Bank.

2.6. Real estate Finance availability

The real estate industry is not an exception to the pervasive financial constraints that face private company in Ethiopia, especially long-term financing. However, given the effects on sellers (who find it difficult to begin and complete their developments without adequate funding) and buyers (who are frequently unable to secure sufficiently affordable mortgages), the consequences of inadequate finance may be particularly more pronounced in the real estate sector. Project financing for developers and long-term mortgages for buyers are still hard to come by in the current financial climate, which suggests that most real estate developers self-finance the majority of their new constructions while most home buyers pay cash for their houses or apartments. Affordability will remain a challenge, and the underdevelopment of the financial system will continue to inhibit what could otherwise be much faster and broader growth in the real estate sector (Capital, 2011). This is because both sellers and potential buyers need access to such long-term financing.

2.7. Housing financing institution in Ethiopia

In Ethiopia, there is a glaring lack of a flexible and varied home financing market. The only bank that provided long-term mortgages for the purchase of houses for a long time was the Construction and Business Bank (CBB), originally known as the houses and Savings Bank. The Central Bank provided a significant portion of the capital for the Bank, which was held by the Ethiopian government. The Construction and Business Bank began making direct loans to housing cooperatives in the 1990s. Overall, this centralised financial system has left the housing finance industry with a fairly constrained range of products to offer.

Access to housing financing has been a significant obstacle to providing low-income Ethiopians with affordable housing. Subsidised interest rates were eliminated as a result of the market-driven changes put in place after 1991, which sharply boosted lending rates. The likelihood of low-income households obtaining a mortgage was drastically reduced as rates rose from 4.5 precent for cooperatives and 7.5 precent for individuals to 16 precent for both. Furthermore, access to formal credit has been restricted or non-existent due to the significant proportion of low-income individuals who receive their income from illegitimate sources and lacks the resources to serve as collateral. The population's low level of domestic savings and the lack of foreign resources have a negative impact on the amount of investment available in the housing industry. These result in low levels of housing investment at the household level and limited ability of the low-income people to purchase minimum-standard homes. For many years, affordable housing for the poor has simply been out of their grasp.

It is possible to advance the home finance industry in Ethiopia by bringing together a number of real estate market participants. The probable roles of some of these characters are outlined below, as suggested by (Ayene & Martin, 2009).

The Construction and Business Bank (CBB): Since the early 1970s, this bank has been a leader in the mortgage sector in the country. It has been crucial in extending housing loans over time, helping to finance the construction of thousands of homes. The CBB now has a significant cash constraint that prevents it from reaching additional clients or potential home builders.

The government will need to raise capital investments in the bank and its capacity to provide loans to potential house builders in order to enable the bank to play a larger role in the housing market. The bank can also act as a clearinghouse for the government to deliver low-cost housing to low-income people at significantly reduced rates if the government decides against moving forward with privatisation. This, however, may not be sustainable in the long run given the current inflationary pressure on the economy, which is mostly fuelled by substantial investment in public building (primarily highways and huge dams).

Commercial Bank of Ethiopia (**CBE)** The CBE bank is by far the biggest and most influential in the country. With over 50% of the total bank capital and business coverage at its disposal, it controls the majority of the banking industry. Additionally, it has enormous liquidity reserves that may be used to support the nation's real estate market. There is little question that the Commercial Bank of Ethiopia (CBE) can play a significant role in the development and growth of Ethiopia's home finance industry given its enormous potential. To allow the Commercial Bank of Ethiopia to be a significant player in the mortgage financing market, a change in government policy is required, together with creative leadership on the part of the bank management.

To integrate the Commercial Bank of Ethiopia in the mortgage industry, the government must amend its policies. Therefore, the restriction that now bans CBE from participating in mortgage home finance must be removed. The recent adjustment in policy to include the Commercial Bank of Ethiopia in mortgage financing of condominium homes, as was previously discussed, is a solid step in the right direction. As expected, the subsidised interest rates provided by CBE have not attracted other lenders to this arrangement.

However, different research by (Wiedmaier-Pfister, et al., 2008) showed that Commercial Banks (CBs) only had a limited role in funding impoverished families, mostly through a variety of guarantee schemes and other small assistance operations. There have been a few

instances of restricted lending to or via MFIs. In three instances, banks owned a stake in MFIs and provided a little amount of technical support. Although it was impossible to estimate the number of tiny accounts, banks do contribute to the mobilisation of small deposits.

The Private Banking and Insurance Sector The private banking and insurance industries in Ethiopia have advanced significantly in a very short amount of time. This sector has been able to take control of close to 50% of the banking and insurance sectors in a little more than 15 years. Its participation in the real estate market is now relatively restricted, as was mentioned earlier, for a number of reasons, including, as was mentioned earlier, a lack of experience, lower profitability, and dangers related to long-term financing. This has to alter in favor of the private sector playing a larger role.

The Construction and Business Bank was the sole bank that specialises in providing housing finance; hence there is a lack of money for investment in the housing industry. Furthermore, short-term loans are preferred by commercial banks. The housing financing industry has a negligible influence on the growth of the larger financial system due to the low degree of penetration by formal housing finance institutions.

Savings institutions and long-term financing options are hampered by Ethiopia's lack of functional mortgage markets. Institutions that specialise in venture capital provide risk-bearing finance in other nations, but do not exist in Ethiopia. It therefore, seems doubtful that such institutions, which are capable of mobilising sizable resources to fund the housing industry, would become, operational in Ethiopia in the near to medium term.as it takes time to provide the enabling environment. The government should simultaneously promote private banks' involvement in the mortgage sector. Government guaranteeing their debts and selling the land after carefully determining its market value are two options for resolving this issue. These will reduce the risk and entice private banks to invest in the mortgage sector.

2.7 Non-financial factor for real estate development

1. **Location**

Properties, real estate, and buildings in business and market sectors are worth more than those in residential regions. Brokers sometimes quote higher prices for buildings in well-established and approved colonies and neighbourhoods compared to those in less established and up-and-coming places. Similar to this, structures built on freehold ground often fetch a greater price than those built on leased land. (Muchengwa, 2018)

2. Amenities

In comparison to properties that lack proper electric connections, telephone lines, water sewage facilities, and other infrastructure like community centres, children parks, swimming pools, gymnasiums, parking lots, or general stores, properties with better infrastructure and modern amenities are valued at a higher price. Property values are obviously predicated on the accessibility of amenities and essentials associated with pleasant living. (Muchengwa, 2018)

3. Infrastructure

Returns are impacted by the infrastructure in the development areas. Infrastructure consists of the road system, the ability to connect to a power source, the availability of a water source, and the drainage and sewage systems. Areas become accessible and ready to support habitation thanks to infrastructure. Good infrastructure development results in a large increase in residential property values. The county administration of Nairobi County establishes zonal ordinates for several zones and sub-counties. The ground coverage and plot ratios of residential projects inside these zones are determined by the zonal ordinates. This is based on the availability of road reserves and drainage and sewage facilities within these sub counties to support population. As a result, this dictates the number of dwelling units permitted in a development within a location, which impacts the potential return of entertainment hubs in addition to other common facilities (Muchengwa, 2018)

4. Commercial Real Estate

Significant instances of commercial growth that have impacted the value of real estate in these locations are Noida, Gurgaon, Pune, Hyderabad, Navi Mumbai, and Andheri-Borivili in Mumbai.

The construction of shopping centres, information technology offices, and Special Economic Zones close to residential areas helps save the time and energy consumed travelling to work and raises the value of real estate in the region.

5. Disposable Incomes

A lower price is paid for real estate in rural or predominantly industrial locations than it is for property close to IT clusters. The amount of discretionary money that the buyer or the majority of the population in the region possesses directly relates to the value of the property. (Muchengwa, 2018)

6. Availability of land

The graph depicting the worth of property indicates a slower growth in locations where there is plenty of land available for residential uses or the development of real estate than in areas where land is relatively scarcer. (Muchengwa, 2018)

7. Demand and Supply

In a given location, demand for real estate is inversely correlated with availability. Property values rise as the quantity or availability of real estate declines. Demand is mostly driven by demographic changes. The popularity of a certain locality in terms of people desiring to be a part of the locality also boosts its price along with an increase in the number of people living there. (Muchengwa, 2018)

8. Affordability

The expense spent by the owner in order to use or maintain a property is referred to as affordability. It is the phrase that identifies a connection between interest rates, home prices, and salaries. When one or more of the three aforementioned factors reaches its peak in a certain location, the locals begin to search for a higher quality of life elsewhere. (Muchengwa, 2018)

9. Structure

The specifications of the materials used, the layout, the design, the longevity of the structure, and its life cycle all affect how much a piece of property is worth. The cost of building materials, their quality and cost, size, labour costs today, frontage, and other physical characteristics like roof covering, building height, foundation type, waterproofing, and plinth level all have an impact on how much a property costs. (Muchengwa, 2018)

10. Interest rate

 The real estate markets are also significantly impacted by interest rates. The capacity of a person to acquire a residential home can be significantly impacted by changes in interest rates. This is because mortgages affect residential property values; a change in interest rates, in turn, affects the value of real estate. Thus, interest rates affect the demand for homes. Low interest rates will increase the number of mortgages taken out, which will raise demand for houses and boost yields. Capital flows are also impacted by interest rates. The cost of cash increases when interest rates rise. Capital is scarce due to competing investments as banks and

investors weigh their necessary rate of return on investment. As a result of the reduced flow of finance due to this rivalry, developers' access to funding is impacted. This affects supply of housing and in turns affects returns. (Muchengwa, 2018)

11. Legislation

Legislation is a factor that may have a significant influence on the demand for and price of real estate. The government can temporarily increase demand for real estate through tax credits, deductions, and subsidies. For instance, in an effort to boost house sales in a slowing economy, the U.S. government issued a first-time homebuyers' tax credit to homeowners in 2008. The National Association of Realtors (NAR) estimates that this tax benefit alone encouraged 900,000 purchasers to purchase properties. After the sub-prime global financial crisis, there was a noticeable rise in home demand in the United States (NAR, 2009).

2.8.   Urban land: Imbalance supply and demand market

According to (Mekuria, 2022) since the beginning of the 1990s, when the first urban land proclamation number 80/1993 was declared, a lot of attempts to improve land service delivery had been made. Land is a common property of the Ethiopia nation's nationalities, and populations, as defined by Ethiopia's constitution, article 40 sub articles 3, and shall not be subject to sale or other means of exchange. However, the government was supposed to guarantee private investors' right to use land on the basis of payment arrangements established by status, as is clearly shown in the same article sub article 6. Use rights in Ethiopia urban areas may be transferred to third parties as long as the use right owner fulfils its obligations as per the lease agreement, for a limited period of time, except for the family members. Therefore, the land market is primarily divided between municipalities and citizen who are looking for land for use as residence, investment, and /or real estate development.

It has been recognized that to financial constraints, the sustainability of the land supply for multi- development partners, including the private sector, has not been achieved satisfactorily. This is because municipalities have given the bulk of the property to government initiatives such as housing, roads, telecom, water, health, education, etc. Even for the compensation and infrastructure upgrades, there is no compensation. From a budget standpoint, city administrations are unable to sustainably use the land they receive because they are not reimbursed by the government for the costs, they incr. Only a small portion of the land sold each year is devoted to the auction market, allowing individual and business owners to purchase it. The confluence of this approach has harmed cities, rendering them ineffective satisfying the market's land demand and supply. Despite a slew of attempts to better regulate

the land market by implementing different levels of regulation, the market is still mismanaged and inefficient due to the lack of proper management. The local government is the primary source of urban development land and they rarely satisfy the needs of residents, investors, and real estate developers. The majority of the time, land with the necessary infrastructure is poor, and a large portion is delivered without the provision of main utilities. Aside from this, the compensation for land reclaimed from the farmers is low relative to what they can "sell illegally" which is the primary source of resistance in Ethiopia's hinterland.

According to Mekuria, it is imperative that individuals and businesses who have no legal right to formal land from the original owners do so illegally because all land is primarily claimed by municipalities for commercial purposes, and they usually prioritized pulling proposals such public infrastructure projects, hosing, or social development initiatives because they are compelled to use the land for the private sector properly. The limited supply of individuals and business demand in the formal market has fuelled the development of informal markets and squatters, which have distorted urban planning. In semi-urban areas, these markets are primarily serviced by farmers. In practice, they are becoming a source of land supply for households and small and medium-sized businesses.

Mekuria further stated that due to a lack of a viable land market, the quality of urban land administration legislation increased the unmet demand and supply of the urban market the continuously updated land market law (lease law has also not allowed urban demand and supply to be as expected. The preconditions for using the leasehold right have further complicated the transferability and limited the use of leasehold right have further complicated the transferability and limited the use of leasehold rutile as collateral to secure funds for investment the compound interest rate on the unpaid balance has reduced the properly marketed wealth.

2.9. Housing: Insufficient housing supply and unaffordable real-estate market

As explained by the government's condominium house buying program is ineffective and hasn't been able to cope with the demand. Mekuria, 2022) Despite the fact that the government's intervention in housing supply was justified and the amount is significant, it was mismanaged and was subjected to challenges in terms of sustainability, as well as unsatisfied demand.

As emphasized by Makaria Haile:

> "The real estate industry is underdeveloped and has had substandard practices in
> Ethiopia, especially in Addis Ababa. There is no system that delivers reliable

information about the price, size, quality, and availability of utilities, which could have been the basis for decision making by consumers, banks, cities, etc." (Mekuria, 2022).

It has inadvertently distorted the government's housing policy's goal. In addition to causing more distortion in the land and housing markets. Ethiopia's housing market is inefficient. There is a large unmet demand in terms of quantity and quality, which has a direct effect on the prices. As per the MUDCo GTP II plan (2011), the annual urban new house demand forecast, which excludes the replacement of the old one, is 381,000, which is much higher than the annual demand. The urban population is confined to informal settlements, which is why they are able to live in them. Ethiopian cities, for example, are seeing the highest rate of urban population living in informal settlements, according to the 2015 report by the World Bank group, which is higher than sub-Saharan Africa countries due to the lack of housing supply.

In Ethiopian cities, the affordability of the housing market is still a significant challenge. In cities, the majority of residents are in the low-income bracket, and it is a challenge for them to buy a house from the market, even if they are in a position to afford government –subsidized housing packages. The government or private sector's housing programs are primarily aimed at middle- and upper-income households. Therefore, they have no other options than to live in informal housing. By using the rental income, residents who can afford it can fill the housing supply gap.

Due to the poor clarity of the land markets, housing finance is not tied to the mortgage market, and therefore the housing finance system is underdeveloped. The bulk of financing funding comes from the informal sources, except for the government –led housing initiative. Even though banks give many loans, the number of loans allotted to housing is very small. This could be due to a lack of clarity on the owners' lease rights.

2.10. Strategies for addressing urban land and housing challenges: Making market work

According to (Mekuria, 2022) there is no suitable market for land and housing. The Ethiopia government has the responsibility to create a market that is responsive to land and housing demand. Ethiopia's federal government has a significant role to play in the development of urban land markets. Efficient land and housing markets cannot be developed overnight, and such changes require strong leadership, a concrete strategic vision with a transparent framework, as well as appropriate prioritization and phased approach steps (well defined

milestones), taking into account the country's political economy, available resources and capacity, and of course, the political economy, it requires specific policy changes that will have the most effect on bringing the land and housing market in the right direction. Mekuria pointed out that the following are some of the major milestones (1) identifying and reinvesting in land use, whether the land transfer is for the government for purposes of electricity and infrastructure development or for the privet sector for commercial and residential development purposes. (2) Tilting and registering who owns what amount of property, which indicates the type of right attached to the ownership; and registering who owns what size of property; this helps to identify the type of right attached to it. (3) create a market that allows for the exchange of use right with ease and effective safeguard the property right; and (4) identifying and implementing a strategy that promotes the production and supply of serviced land, which may lead to proper market functioning and a resolution of the land demand gap for businesses and residences.

Despite the fact that Ethiopia has adopted the lease system for urban land management, the actual implementation has not been well planned and is suffering from mismanagement. Mekuria noted that it would be reasonable to recommend that the payment system be simplified as soon as possible, and that lease right transferability be moderated, and the mortgage-ability should be eased –up when it comes to purchasing land for electricity, roads, and housing, the Ethiopia government is not properly addressing the cost of land compensation and development.

It should have been vital that government capture and analyse complete and accurate data on land development costs, as well as devise a strategy on how to extract revenues form cost recovery. This could have enabled the government to determine how much funds are subsidized for homes in order to make housing affordable and to plan on addressing the issue of sustainability, therefore, it is vital to have the information points necessary to manage land use effective, and sustainably.

The big initiative taken by the government to supply residence house in Addis Ababa seems to have not adequately addressed the problem even though it has contributed to the solution. Hence, it becomes paramount to have a proper housing market that the government should take a big responsibility to make happen. The first initiative should be to create a proper land market. This may include developing a conductive environment for the supply of land and making the transaction easy and transparent, which are very important steps. The other initiative may include enacting legislation and make the real-estate markets, it is critical to consider how to target the various segments of the society's housing problem based on their

level of income, especially if a systematic strategy of subsidies is implemented as has been done in other countries such as the Netherlands.

From the perspective of Mekuria interpretation of the regulatory environment regarding access to land, the financial strategy for the housing market should also be well addressed and the role of land titles in how they can be used as collateral should also be clarified. Ethiopia's potential demand for the housing finance system can motivate the supply of finance for housing to mature into a dynamic marketplace, attracting both local, foreign investment and increasing private sector housing supply dramatically. The federal Government, through main stakeholders such as the ministry of finance and the National Bank of Ethiopia, should spearhead the development of the housing finance system. Building the housing finance system is essential not only for the housing market and broader economic growth because it encourages supply through development and housing loans. Commercial banks, regional banks, microfinance, development banks, pension agencies and others should take the housing sector as a major portfolio of loans. This would support demand by enabling households to purchase their own homes with mortgage products, encouraging saving and national wealth creation. Hence, it needs to be taken as one of the major intervention indicators for economic growth.

Additionally, Mekuria emphasized that the financing strategy for the housing market should also be well addressed and the role of land titles in how they can be used as collateral should also be clarified. Ethiopia's potential demand for the housing financing system can motivate the supply of finance for housing to mature into a dynamic market place, attracting both local, foreign investment and increasing private sector housing supply dramatically. The federal government, through main stakeholders such as the ministry of finance system. Building the housing finance is essential not only for the housing market and broader economic growth because it encourages supply through development and housing loans. Commercial banks, regional banks, microfinance, development banks, pension agencies and others should take the housing sector as a major portfolio of loans. This would support demand by enabling households to purchase their own homes with mortgage products, encouraging saving and national wealth creation. Hence, it needs to be taken as one of the major intervention indicators for economic growth. Costs for housing. The government needs to invest in management information systems that can enable leaders to make informed decisions. Therefore, it is very important for the prioritization of the collection and dissemination of relevant and reliable market information, which will also help to lessen risk in the sector and encourage private sector investment.

It was strongly recommended that less government intervention strategy for the Ethiopia integrated housing. Development program to be adopted. Legitimate office should be established with the consultation of the financers, owners of the house, city administrations, regions, federal government ministries, and contractors that help to lessen the government's intervention strategy on housing, etc. It seems that the program is getting to a dead-end and a gradual exit across cities and regions is very critically important to close the program properly, except for Addis Ababa. Addis Ababa should be considered as an exception since it is a national growth pole and due to its excessive urban primacy (11 times bigger that the next largest city) unless we addressee the housing challenges, externalities. Therefore, there is a need for the federal government's intervention that could be addressed based on cash flow analysis, taking into consideration government obligations the financial stability of builders, and financial implication for the financial banks, regional administration's issuance of bonds as collateral programs and those that could be transfer to the state of under construction, etc. focusing project by project. The government may also enable the private sector to access land by increasing land auctions to fund infrastructure and service delivery, as well as to support targeted subsidy schemes for low-income households.

2.11. Empirical studies

Journals and academics who have studied real estate projects, particularly private residential real estate projects, are few in number. Below is a list and evaluation of them.

(DAGNE, 2019) conducted research on "Practices, challenges and prospects of real estate developments in Addis Ababa. The research article incorporates the involvement of different real estate developers, and purposive sampling method was used and descriptive statics was derived to analyse the data. The research results shows that there are many challenges associated with real estate development, including lack of proper policies, rules and regulations requirement of high capital, investment land acquisition problems, scarcity of construction materials, and price escalation of construction materials, foreign currency problems are the major identified challenges in the study.

According to research conducted by (Selam, 2016) on "the experience and potential of private residential real estate development in resolving Addis Ababa's housing issues, "This study included affordability and various income levels were considered as explanatory variables. Explanatory study from documentation and desk research, as well as observational studies for quality assessment, were used as part of the analysis, her research supports the assumption that there are not enough actively operating real estate developers to address the

housing shortage and that there is an insufficient supply of housing when compared to the accumulated several decades of backlog.

(Aqubamicheal, 2009) carried out an investigation into the "Factors Affecting the Real Estate Market: The Case of Addis Ababa City. To analyze the data, descriptive statistics were employed. He evaluated the trend in on the demand and supply of real estate properties and came to the conclusion that housing affordability in the market is extremely low and can be classified as a "severely unaffordable". The factors that influence the market typically come from the real estate companies themselves, from the demand side, from the financing, from the government side, and from the current economic situations. These include a lack of land, rising prices for building materials, inflation, and global economic crises.

A thesis, by (Miniyahle, 2016), on the topic "Challenges of private residential real estate developments in alleviating the housing demand in Addis Ababa" involved a straightforward quantitative analysis of the data gathered. The thesis aimed at reducing housing demand by removing, major obstacles. The findings illustrated that constrained supply project financing, regulation, and use of the land management system. He came to the conclusion that the challenges facing the sector are the difficulty in acquiring land, the scarcity of loans from financial institutions, the lack alternative of financial resources, time and cost overruns, the rising cost of construction materials, the dominance of the high-income segment of society and members of the Diaspora as customers, and the exclusion of the disadvantaged middle- and low-income groups

Samuel (E.Samuel, 2013) thesis titled "Effect of Financial Source on Performance of Real Estate sector in Nairobi, Kenya adopted descriptive method of data analysis. The result of his investigation showed that by including equity, ,venture capital and mortgage financial options as a key variables, he recommended that in order for the investors to maximize returns on their real estate investment they should adopt strategies such as increasing mortgage financing up to optimal points since it has the highest returns as compared to other financing source the research further recommended that to reduce risks associated with venture capital, investors should undertake some mitigate steps like assessing and evaluating potential investors targets regarding risk and return.

2.12. Literature gap

The literature reviewed indicate that there is a gap in evaluating factors that probably affect the construction financing in Ethiopia, specifically on real estate residential and non-residential development particularly in Addis Ababa. The research conducted on construction

financing on real estate had shown gaps in clearing up lack of adequate loan from financing institutions, collateral requirements, and the government policy on land and leasing, among others; which are of critical important as driving factors to overcome the burden on developments and home buyers.

The literature review has shown that the challenge of construction financing specially in case of real estate (residential and non-residential) has not been given the alteration deserves enough focus. The construction financing of real estate needs to be investigated in depth in relation to the source of financing, government's policy related to land use, land leasing and ownership and the term and conditions, of financial institutions to give loan for interested parties to become home owners.

2.13. Conceptual Framework

According to literature reviewed Real Estate financing encounters various challenges source of financing, inflation, using cost construction material lack of an enabling, regulatory and administrative environment to acquire land, such as interest rate on borrowing interest rate on borrowing, lack of skilled manpower, gap in policy which can be categorise in to three as shown in figure 1

Figure 1 Conceptual Framework sources and challenges of real estate financing

Source of Finance
- Equity Financing
- Pre-collection from Clients

Adequacy of Finane
- Stringent collateral requirment

Access to Real estate Financing

Other Challenges
- Inflation of construction materials
- High bureaucracy to aquire land
- Interest rate ... etc
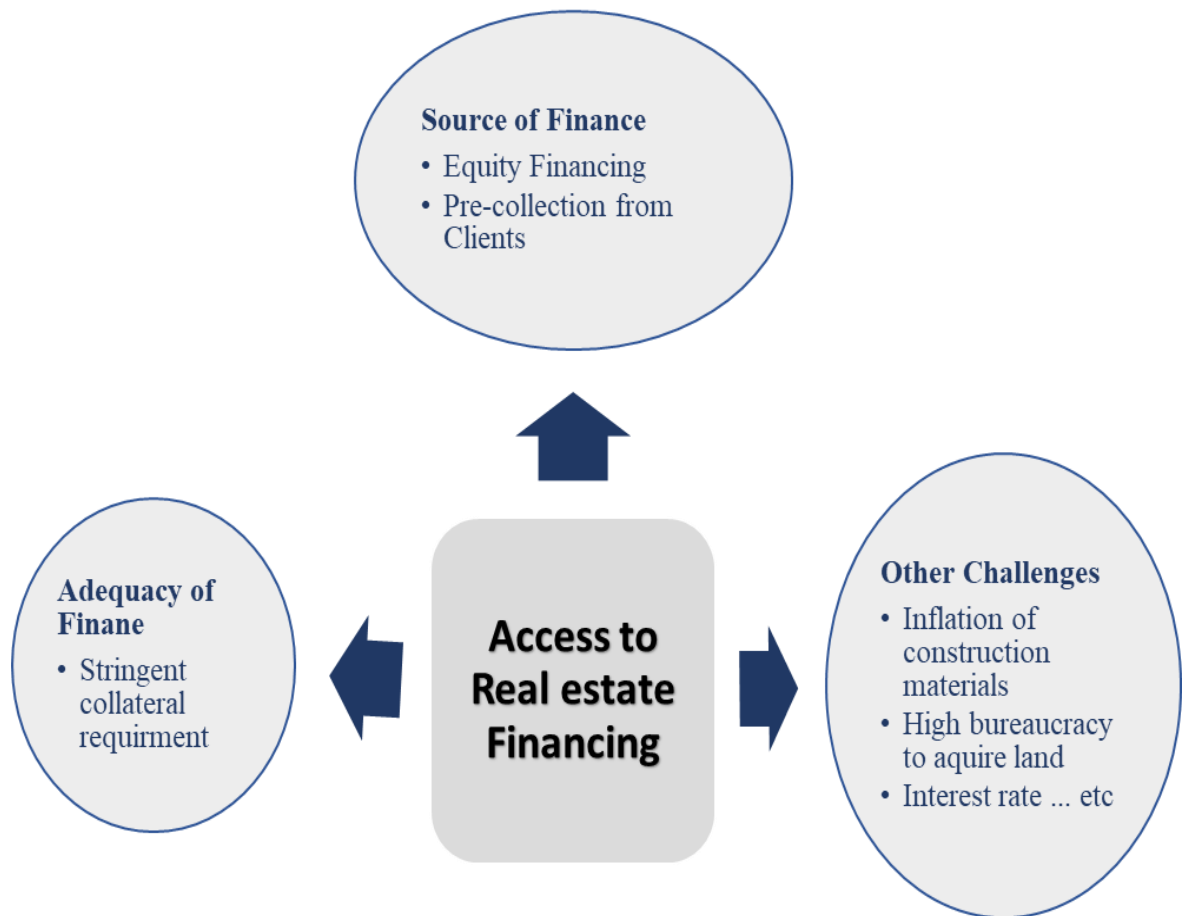
Source: constructed by researcher, 2023

Chapter Three

3. RESEARCH METHODOLOGY

3.1. Introduction

This section describes the procedures undertaken to achieve the research objective. The procedure adopted, including all the information relevant to the data collection and where those instruments, sample size and methods of analysis are presented.

3.2. Research Approach

To get the most accurate results, this study used a triangulation strategy, which involves combing quantitative and qualitative methods the research question necessities both in-depth compression and facts above the study population which is why both quantitative and qualitative techniques is being used Triangulation or the practice of gathering data from multiple source and comparing their results, were used in the study .The information gleaned from the questioner can be further validated or verified with the aid of triangulation.

The research approach involved the identification of information needs, developing survey questionnaire and interview point, sampling of potential respondents (real estate developers), collecting and collating the data, applying descriptive statistical analysis, interpretation of the results (findings), and presenting the evidence in the form of a thesis.

3.3. Research Design

The strategy followed in carrying out the research was started with problem identification which has been done through unstructured literature review, archival study and informal discussion with colleagues design was formulated following this data and information sources were determined based on the formulated research design. On the basis of the data and information sources the research instruments were decided and available documentary sources relevant to the research were reviewed. The review includes book, journal and articles, and internet sources.

The methodology employed here is a descriptive analysis where the sources of the data are both primary and secondary data, The researcher considered adopting qualitative and quantitative techniques in analysing the study objectives and addressing the research questions that have been raised above .The research aims at studying the assessing real estate financing on the real estate development in Addis Ababa from stakeholders perspective. After

a literature in-depth review, a questionnaire was designed and distributed to privet real estate developer.

3.4. Population and Sample size

Data obtained from the Addis Ababa Building Permit and Control Authority has shown that there were 124 licenced real estate developers who had already begun work. However, the data from the Addis Ababa housing Agency shows that from 124 developers only 67 companies continue to be involved in real estate investment. The researcher used a sample size determined by a purposive approach, involving the selection of those companies that had recorded success in handing over the completed house and Experience So the researcher select 15 real estate using purposive sampling technique to select and two Questionaries for each of them were distributed and it was filled by real estate managers and Financial managers.

3.5. Methods of data collection

Primary, Questionnaire and interviews were used to collect primary data. Questionaries being the tool of collecting first hand data were developed as to collect required dada from the sample respondents. Questionaries and structured interviews were developed to capture relevant dada related to the financing of real estate development in Addis Ababa.

3.6. Method of data Analysis

The data collected using questionnaires and interviews were analysed using descriptive statistics methods. This enabled the study to describe the various variables on financial issues and housing development performance. The analysed data was presented using percentages and frequencies tables and figures using SPSS Version 20. Advanced MS Excel was used to analyse data and interpretation of the findings. The result was compared with the results of the theoretical and empirical review of literature.

3.7. Data Interpretation

The information from the SPSS data output were interpreted in relation to the objective of the research and the research questions to come up with the key findings, to be followed up by an evaluation of the implication of the findings in providing feedback to the key stakeholders and contribution to fill gaps related to construction financing with particular reference to real estate development.

3.8. Ethical issues

Regarding ethical issues, the researcher was obtained consent from the respondent before distributing the questionnaires and approval from the university to collect required data. Confidentially of information, integrity and honesty were adhered to throughout the research.

Chapter Four

4. DATA ANALYSIS AND DISCUSSION

4.1. Introduction

This chapter presents the analysis of data and the findings, as well as the significance of the results, used for the preparation of the thesis. The information generated from the statistical analysis has been collected, by the different aspects (modules) of the survey questionnaire.

4.2. Analysis and discussion of the general information of the respondents

4.2.1. Analysis of occupation title

Table 1:- Distribution of participant in their occupational title

		Frequency	Percent (%)	Valid Percent	Cumulative Percent
	General Manager	3	10	10	10
	Project Manager	1	3	3	13
Valid	Finance manager	17	57	57	70
	Department Head	9	30	30	100
	Total	30	100	100	

Tables 1 show that among the total 30 respondents, 3 were General Managers, 1, was Project manager, 17, were Finance managers, and 9 Department Heads. These represent 10%, 3%, 57%, and 30%, of the total number of respondents respectively. The result shows that the respondents were those who are well aware of the financial situation of their companies.

4.2.2. The firms' current legal status

Table 2:- The firms' current legal status

		Frequency	Percent (%)	Valid Percent	Cumulative Percent
	Share Company	2	13	13	13
Valid	Private limited company	13	87	87	100
	Total	15	100	100	

A firm's legal status has implicated for liability, with particular emphasis or the provisions in the articles of association regarding registered capital (both authorizes and paid-up, as well as

managerial administrative and supervisory powers and the publishing of financial data and auditing requirements. Share companies, private limited companies and sole ownership have separate designations regarding legal status. The analysis of data regarding legal status of the sample real state companies shows that 87 percent were private limited companies and the remaining 13% percent share companies. According to the commercial code of Ethiopia, the liabilities a share company is met only by its assets, while in the case of private limited companies it could be formed by a minimum of two and maximum of fifty members. As a share company is established through the issuance of shares to an unlimited number of members, there is separation of ownership and control, a major aspect of corporate governance,

4.2.3. Way of delivering the service/product

Table 3:- way of delivering the service/product

		Frequency	Percent (%)	Valid Percent	Cumulative Percent
Valid	Sale and then construct residential house	23	77	77	77
	contract and sale residential house	5	17	17	93
	partially construct and sales	2	7	7	100
	Total	30	100	100	

Real estate developers can be engaged in three major types of investments in developing their projects. These projects can be residential houses, commercial buildings or multi purposes (mixed use) buildings. Furthermore, they can be classified in to rental and sale of properties. As it can be seen from the Table 3, all respondents in confirmed that their companies are engaged in the development and sales of residential properties. The respondents were asked to forward their response on how their company delivers the properties. From the total of 30 respondents 23 (77%) answered that first they will show the vacant land and sale the proposed/designed houses to buyers. The payment system usually is generally on based on mutual agreement, including on advance payment, and an installment rate dependent on rate of progress of construction. This result reinforces the findings of (Aqubamicheal, 2009), and (Miniyahle, 2016) as discussed in the literature review part. The other 5 (17%) of respondents replied that their company's service delivery method is to construct the building and then sale while the remaining 2 (7%) respondents stated that their company's service delivery method is to construct partially and sale to their customers. This helps them to gain trust from the home buyers and make a sale and construction contract and receive money in return to

continue the construction of the remaining works. However, this type of service delivery method makes the construction work and return slower and the cost of capital very high.

4.2.4. Years of experience as a real estate developer

Table 4:- Years of experience as a real estate developer

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	More than 3 years but less than 6 years	4	13	13	13
	More than 6 years	26	87	87	100
	Total	30	100	100	

The organizations' years of experience in the real estate industry are summarized in the table 4 The table shows that according to the respondents none of the companies had less than three years' experience, four respondents had confirmed that the experience of their companies in the business is between three and six years, and the remaining twenty-Six respondents had said that their companies experience in real estate development is more than six years, which corresponds to13 % and 87 %, respectively. The researcher believes that the experience of the companies helps in presenting more reliable data and analyzing most significant findings in relation to the purpose of the study.

4.3. Analysis and discussion of access and adequacy of sources of financing

4.3.1. Comparison of financial obstacles with other factors

Table 5:- Comparison of Financial Obstacles with other factors

		Frequency	Percent (%)	Valid Percent	Cumulative Percent
Valid	Finding customers	6	20	20	20.0
	Access to finance	16	53	53	73.3
	Cost Of production	5	17	17	90.0
	Regulation	3	10	10	100.0
	Total	30	100	100	

During conducting the survey, the respondents had been asked to give their opinion on factors that hamper the investment process. Six factors (finding customers, access to finance, competitive pressure, cost of production, availability of skilled staff or experience, and regulation) were given for the respondent to choose and identify the major inhibiting factor can influence the real estate development businesses. The result shows that access to finance

has been the most critical factor, with 53% as shown table 5. Finding customers has been the second challenge experienced by the respondents with 20% answering affirmatively and cost of production and labor and Regulation represented 17% and 10% respectively as major obstacles faced by real estate developers. The research has shown that availability of skilled staff or experience and competition are not among the major constraints that affect the sector. The evidence shows that real estate development has been significantly affected by insufficient access to finance. Likewise, finding customers and cost of production and labor are the second and third obstacles mentioned by the respondents. These obstacles contribute to delays in the implementation of projects, cost overrun and other related economic and non-economic impacts. It should be noted that access to loans for residential and other real estate are influenced by deposits of commercial banks, interest rate, the depreciation of exchange rate, as well as the lending conditions.

4.3.2. Sources of finance for housing construction implementation

Table 6 shows the sources of finance for residential real estate development.

Table 6:- Sources of finance

		Frequency	Percent (%)	Valid Percent	Cumulative Percent
Valid	From Owen /Equity capital	12	40	40	40
	Collection from buyers	11	37	37	77
	From Bank loan and financial institution	7	23	23	100
	Total	30	100	100	

The evidence from the analysis of data shows that real estate developer obtains most of their finance (40%) project implementation from own/equity. The research shows that the second source of finance collection from buyers with 11(37%), of research respondents and the remaining 7(23%) from bank loan and other financing sources. The evidence from the respondents shows that none of the real estate developers were able to secure funding from both international lenders and the stock market. Foreign banking institutions have not been allowed to operate in Ethiopia and alternative source such venture capital, securities market and other forms of financing have not been developed.

4.3.3. The potential buyers of real estate housing

Figure 2 :- shows the percentage distribution of categories of buyers

Potential Buyers
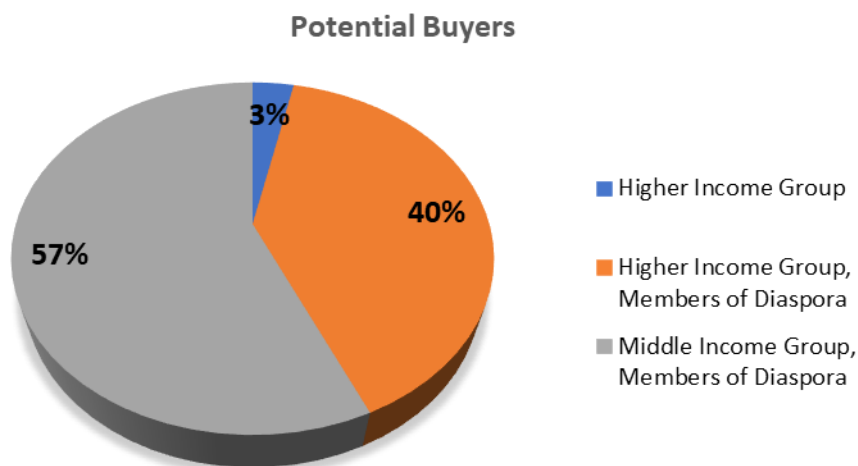
As shown in figure 3 above 3% of the respondents were members of the higher income group, (57%) of the respondents were member of diaspora who are middle-income groups and (40%) respondents were member of diaspora with high income. The result implies that most home buyers are high and middle income from diaspora community who are able to afford down payment & subsequent installment payment almost. (Miniyahle, 2016) suggested and is in favor of the above finding which supports the aforementioned conclusion; the majority of customers come from the upper classes of society and Diasporas. The Ethiopian Diaspora, which makes up about 95 percent of the average client percentage indicated by sample units, dominates the market and is a major source of (piper, 2016) revenue (Aqubamicheal, 2009). And the present global economic slowdown has had a significant impact on these groups, which has an impact on the local real estate market. The bulk of the population's lower income categories are unable to purchasing homes from real estate developers.

4.3.4. The predominant payment terms

Table 7:- Payment terms

		Frequency	Percent (%)	Valid Percent	Cumulative Percent
Valid	Down payment during signing of sales contract & the remaining in installment	20	67	67	67
	Pay down payment and installment payment arrange bank loan for the remaining payment	10	33	33	100
	Total	30	100	100	

According to table 7, which is shown above, 20 of the respondents which is 67% said that their house purchasers make a down payment before construction work begins, followed by installment payments at various stages in accordance with their agreement. And only 10 respondents which are 33% said that their companies collect some percentage of the house price as a down payment from their potential buyers and doing so on an installment basis and arrange bank loan for the remaining amount. Both methods give advantage for customers who are able to make a down payment and pay the installment payments as required.

4.3.5. Long term construction loan from banks

Table 8:- Availability of long-term financing banks or other financial institutions

		Frequency	Percent (%)	Valid Percent	Cumulative Percent
Valid	Granted and considered expensive	17	57	57	57
	Never granted although sought	13	43	43	100
	Total	30	100	100	

From table 8 above, we can observe that all the companies sought to finance their housing project by taking long term loan from banks. However, 17 (57%) of the respondents answered that their companies were able to secure a loan and considered it expensive while the remaining 13 (43%) answered that their companies were not granted loan although they sought to get a loan. The availability of sufficient and efficient (long term loan) mortgage is important to enhance the development of the real estate market in narrowing the demand supply gap and fostering is supported by (H Aliyu ;Usman ; Alhji, 2015) as discussed in review of literature.

4.3.6. Potential lenders if loan is provided to the companies for construction Purpose

Table 9:- Potential lenders of the real estate sector

		Frequency	Percent (%)	Valid Percent	Cumulative Percent
Valid	Commercial bank of Ethiopia	5	17	17	17
	Private banks	25	83	83	100
	Total	30	100	100	

From table 9, 25 (83 %) of respondents stated that they secured the larger proportion of finance from private banks. Only five responder (17%) report that they had managed to obtain loan from the state-owned commercial Bank of Ethiopia (CBE).

The statically evidence shows that currently there is limited access to loans, heavily dependent on the commercial banking system. There are no alternative sources of finance such as external institutions. As highlighted in the literature review part there are no specialized mortgage banks and financial organizations that can offer loans to developers. As the commercial banks were set up to provide loans credit to commerce-based economy, their lending conditions have not favorable for real estate development, which is a significant factor hampering sustainable growth.

4.3.7. The purpose of the loan, if loan was provided

Table 10:- Purpose of the loan

Purpose of the loan		Frequency	Percent (%)	Valid Percent	Cumulative Percent
Valid	Working capital	27	90	90	90
	Land/building/or equipment /vehicles	3	10	10	100
	Total	30	100	100	

As we can see from the result of table 10, the 27 respondents (90%) stated that they use the loan provided for working capital. It is the money available to fund a company's day to day operations for the developers. All Banks in Ethiopia are highly engaged in the provision of loans for working capital requirements and trades facility. Financing for housing project is given minimal attention as indicated in the research finding by (Yinebeb, 2015) Only 3 respondents (10%) answered that used the loan for acquisition of Land /Building or Equipment/vehicles.

4.3.8. The main reasons of difficulty in obtaining long term loan

Table 11:- Reasons for difficulties of obtaining loan.

		Frequency	Percent (%)	Valid Percent	Cumulative Percent
Valid	Unavailability of specialized mortgage banks	12	40	40	40
	Inability & incapability of existing banks	8	27	27	67
	High interest rate	4	13	13	80
	Strict requirement such as Collateral & reliable source of income	6	20	20	100
	Total	30	100	100	

Table 12 shows that various reasons for difficulties of obtaining loan from banks ranging from unavailability of specialized mortgage banks to collateral & reliable source of income. Out of all the choices given to select from 12 (40%) respondent picked unavailability of specialized mortgage banks and 8 (27%) respondents picked inability and incapability of existing banks to provide loan to real estate developers while the remaining 6 (20%) and 4 (13%) respondents have said that strict requirement such as collateral and reliable source of income & high interest rate makes it difficult to obtain long term loan.

4.3.9. The current situation of access to financing

Table 12:- Current situation of access to financing

		Frequency	Percent (%)	Valid Percent	Cumulative Percent
Valid	Normal	6	20	20	20
	Difficult	24	80	80	100
	Total	30	100	100	

As seen in table 12, 24 (80%) respondents agreed that it was challenging to obtain financing for real estate development, whereas 6 (20%) respondents claimed that having access to financing was commonplace. This demonstrates how difficult it is for the majority of developers to acquire financing, which makes it hard for them to secure funding for their particular initiatives.

4.3.10. Adequacy of sources of finance in financing projects

Table 13:- Adequacy of sources of finance

		Frequency	Percent (%)	Valid Percent	Cumulative Percent
Valid	No	30	100	100	100

According to table 13, every respondent acknowledged that the sources of financing for real estate are insufficient. Consequently, the sources of funding are insufficient to support the development of real estate and housing.

4.4. Challenges and future prospects of access to finance on house development performance

4.4.1. Extent of financial scenarios obstacles to the current operations

Table 14:- Descriptive statistics on the attitude towards the financial scenarios an obstacle to the current operation

	N	Minimum	Maximum	Mean	Std. Deviation
High cost of acquiring land	30	1	5	3.57	1.633
Lack of potential buyers	30	1	4	2.3	0.915
Income level of household	30	1	3	2.2	0.847
shortage of initial investment	30	2	5	3.4	0.855
Price escalation	30	1	5	4.07	0.98
Unavailability of loan for developers	30	3	5	4.53	0.571
Unavailability of loan for buyers	30	1	5	4.00	1.414

Note. 5 No Obstacle, 4 Minor Obstacle, 3 Moderate Obstacle, 2 Major Obstacle, 1 Very severe Obstacle

Likert scale is considered an interval scale. The mean is very significant. From 1 to 1.8, it means No Obstacle. From 1.81 to 2.60, it means Minor Obstacle. From 2.61 to 3.40, it means Moderate obstacle l; from 3.41 to 4.20, it means Major obstacle; from 4.21 to 5, it means Very severe obstacle.

As shown in table 14, the respondents were asked to answer how much the scenarios presented are obstacles they face in housing development process. All the questions are directly or indirectly related to construction financing. In the fifth, Sixth and seventh statements, the means are 4.07, 4.53 and 4.00 respectively. Hence, it means that the majority of participants believe that price escalation, unavailability of loan for developers and unavailability of loan for potential buyers are very severe obstacle to their operations. The mean of the 1th statement is 3.57. Accordingly, the majority of respondents do also believe that high cost of acquiring land had been a major obstacle to their operation. The 4th statement about shortage of initial investment has a mean value of 3.4, the majority of participants in the survey express that the shortage of initial investment is a moderate obstacle to their operation. The 2nd and 3rd statements which ask about lack of potential buyers and income level of households have mean value of 2.3 and 2.2 respectively. Majority of respondents have answered that statement 2 and 3 are minor obstacles to their operations. Overall, the statistics shows that price escalation, unavailability of loan for developers and unavailability of loan for potential house buyers is very severe obstacle to their current operations.

4.4.2. Project performance related lists

Table 15:- Descriptive statistics on the attitudes towards the impact of shortage of finance on different inputs

Statements	N	Minimum	Maximum	Mean	Std. Deviation
Shortage of finance caused potential delay in our construction work	30	4	5	4.87	0.346
Shortage of finance caused a significant amount of cost overrun	30	4	5	4.8	0.407
Shortage of finance caused quality and workmanship problem	29	3	5	4.45	0.632
Shortage of finance had significant effect on total delivery of houses	30	3	5	4.4	0.675
Inadequacy of housing finance limited our contribution to employment Reduction and to the overall economy	30	4	5	4.33	0.479
Inadequacy of housing finance limited our contribution in solving housing Problem in Addis Ababa	30	4	5	4.73	0.45

Note. 5 strongly agree, 4 agree, 3 neutral, 2 disagree, 1 strongly disagree

In the first and second statements, the mean is 4.87 and 4.8 respectively. Hence, it means that the majority of participants do strongly agree that shortage of finance causes a delay and cost overrun in their construction work. The mean of the next three statements is 4.45, 4.4 and 4.33 respectively. Accordingly, the majority of respondents do also strongly agree that shortage of finance and inadequacy of housing finance had a significant effect and causes quality and workmanship problem, a lag on delivery of houses and unemployment reduction and overall economy of the country. In the final statement about the contribution in of housing finance in solving housing problem in Addis Ababa with the mean value of 4.73, the majority of participants in the survey strongly agree that the inadequacy of housing finance limits the contribution of the sector. Overall, the statistics shows that shortage of finance has a strong impact on project delays, cost overrun, quality of workmanship, and delivery of houses on time, contribution of the real estate developers to unemployment reduction, and participating in solving housing problem in Addis Ababa.

4.4.3. The future of the developer with the current condition of access to finance

Table 16:- The future of real estate developers given the current financial situation

		Frequency	Percent (%)	Valid Percent	Cumulative Percent
Valid	Faster	10	33	33	33
	Remain as it is	19	63	63	97
	Survival, which it under present conditions will likely be difficult	1	3	3	100
	Total	30	100	100	

The respondents were asked to assess the future of their business operation in light of the present financial conditions. As a result, 63% of respondents said their firm will continue at its current pace, while 33 % though, and believe that they can expand more quickly despite their current financial challenges. The remaining 3% expressed uncertainty about its survival. This demonstrates how the availability of suitable finance solutions is necessary for the real estate industry's future.

4.4.4. Source of land for real estate Developers

Figure 3:- Source of land for real estate Developer

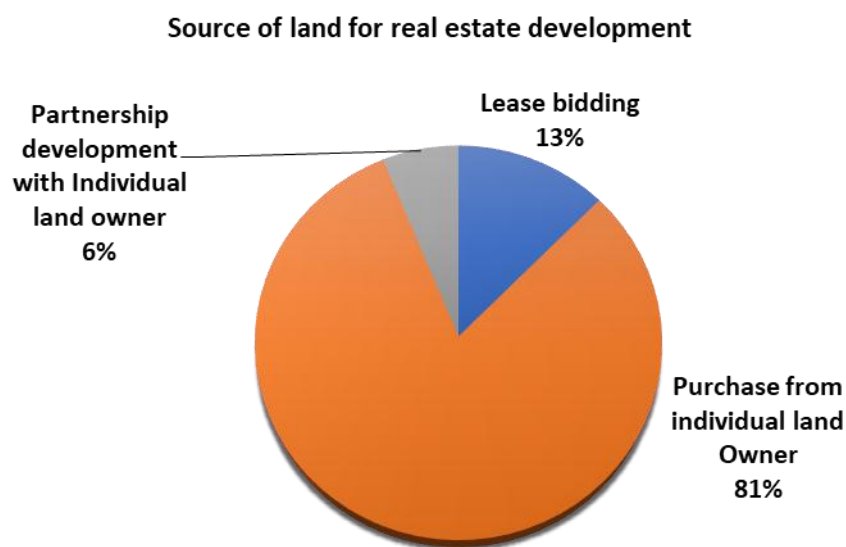Source of land for real estate development

Table shows that 81 % of the respondents answered that they purchasing from individual land owners. Lease bidding and partnership development with land owner are 13 % and 6 %

respectively. This shows that majority of real estate developers' are dependent on acquiring land for real estate development form individuals who are willing to sell their land.

4.4.5. Apartment Houses Price Per meter square from 2018 - 2022

Table 17:- Apartment Houses Price Per meter square from 2018 – 2022

Real Estate Developer	2018	2019	2020	2021	2022
Jamboro	30,000	45,000	60,000	80,000	100,000
Noah	27,084	31,449	31,449	31,449	31,449
Sunshine	35,361	37,342	43,466	56,250	56,250
Eney	17,091	21,483	25,205	33,667	54,534
Ayat	25,000	25,000	33,300	41,600	62,500
Average Price	**ETB 22,759.09**	**ETB 27,048.86**	**ETB 32,573.29**	**ETB 40,831.13**	**ETB 51,125.80**

Table 17 shows the selling price of an apartment house per meter square collected from five real estate developers. The highest price in 2018 was birr 35,361 per meter square and the lowest was 17,091. However, the average price for the year 2018 had been ETB 22,759. In 2022 the lowest price was birr 31,499 while the highest was 100,000. The average price for year the 2022 had been ETB 51,125. Figure 4 shows the trend of average price of apartment houses from 2018 to 2022. The average price has risen from ETB 22,759/m^2 in 2018 to 51,126/ m^2 2022 showing an 18% increase within five years.

Figure 4:- Average price of apartment House per meter square

Average price of Apartment House per meter square
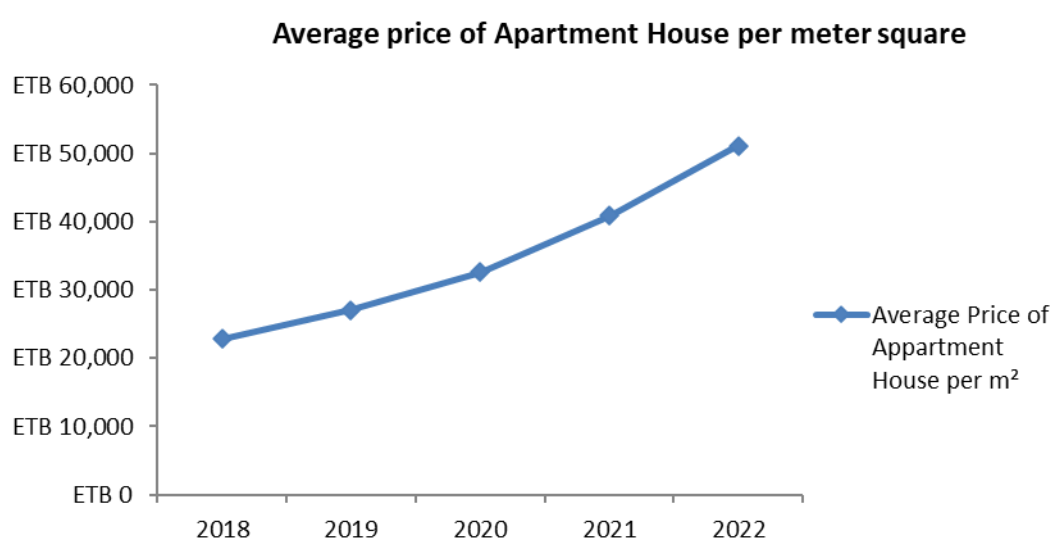
Chapter Five

5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary of Findings

The purpose of the research was to determine the extent to which financial factors affected residential real estate development. It was specifically designed to determine the types of financial sources for real estate investment and in parallel the challenges in increasing availability towards meeting demand. The following conclusions had been drawn from the analysis and interpretation of the statistical evidence:

I.   The major source of financing real estate investment is equity financing from family and already established businesses and sales revenue;

II. Private limited firms make up the majority of real estate companies, who relied on own or family resources or sales revenue of residential houses. The legal restrictions had continued to inhibit additional sources of investment from shares, and as a result limiting expansion and expediting the rate of progress of the construction works;

III. Advance payment from buyers of residential real estate and intermittent payments as construction progressed had been the second source of financing. The typical sales pattern is for the purchasers to sign a contract, make a down payment, and then pay the balance installments as the development takes shape. The finding indicated that higher income categories and those from the Diaspora constitute the majority of house purchasers who can afford to pay cash;

IV. Credit financing plays a limited role, and bank loans continue to challenging. Only a small number of Addis Ababa's families would be able to get bank loans since there are few sources of funding from commercial banks and no government support for lending facilities, a key issue of an enabling environment;

V.   Lack of confidence on the part of both real estate developers and purchasers regarding the prospect for approval of loans, and absence of other options of source of financing, together with the stringent terms and conditions of the commercial banking system;

VI. A significantly large proportion of the financial product offered by the commercial banking system has been credit for working capital of the real estate companies,

5.2. Conclusions

This study's major goal was to demonstrate how financial difficulties affected Addis Abebi's home construction projects' performance. Research problems and research questions from the first portion of the study are discussed in the following chapters. In the second chapter, a thorough examination of the theoretical and empirical literature was evaluated. Higher-ups and financial decision-makers of real estate developers in Addis Ababa were surveyed, and the information collected was analyzed and the results were summarized.

Real estate developers in Addis Ababa, who are able to carry out the building and delivery activities face challenges to overcome the numerous inhibiting factors, limited the opportunity for improved performance of the real estate companies or purchase of housing using a housing finance system.

The business environment for real estate development has been characterized by too much reliance on limited equity (own funds) and the collection from sales of houses. Relatedly, unaffordability for home seekers together with inflationary pressures and the unfavorable type of products (access to loan and short-term credit) put immense pressure on both developer and purchasers.

The prospect for partnership between domestic and overseas remains low, which could be explained by lack of an enabling environment, partly due to gaps in regulation and uncertainty of the exchange rate regime. Also challenging has been the slow rate of progress of construction and the rapid rise in the cost of construction materials and other supplies.

5.3. Recommendations

The following are the main recommendation of the research:

I.   The government of Ethiopia improve the enabling environment for the supply of residential real estate, with emphasis on providing incentives;

II. Developed alternative source of financing be expanded the scope for investment for a range of house seekers (varying target markets);

III. The commercial banking system explore the scope for improving the supply, and the terms and condition of loans and working capital.

IV. Design and implement appropriate relating to market conditions financing instruments and affordability of housing to stimulate supply to match rising demand.

V.   The capacity and efficiency of the building industry be enhanced and improved through state-of-the-art technology, work methods and construction other manageable systems.

VI. The government adopts such measures that would be necessary to strangle regulations and procures to improve customer service for real estate investment and access to favorable to loans and credit.

VII. The government introduces incentives to encourage the private sector provide residential real estate in a cost-effective and affordable manner.

VIII. The availability and accessibility and cost effectiveness of construction material be improved through local production, so to minimize the dependence on imports involving foreign exchange.

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APPENDICES

St Mary's University

Faculty of Business Department of Accounting

(Questionnaire Designed to be filled by respondents)

Dear Respondents

The purpose of this study is to obtain information about "The effect of construction financing with emphasis on Residential Real Estate Development in Addis Ababa" as a requirement in partial fulfilment of the award of MBA Degree of Master of Science in Accounting and Finance from St Marry University. Your voluntarily participation in responding the survey questions with accurate answer is vital to complete the research successfully. All information you provided will be used for only the academicals purpose and will be kept confidential.

Thank You for your cooperation

Azeb Mehari

0913-00-81-03

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A. **ENERAL INFORMATION ABOUT THE RESPONDENTS**

(Please Check (✓) the box that describes your answer appropriately)

1. **Your Occupational title:**

Owner	General Manager	Owner & Manager	Project Manager	Finance Head	Department Head	Other (Please Describe)

2. What is the firm's current legal status?

Sole proprietorship	Share Company	Private limited Company	Other Please specify

3. What and in what way is your establishment currently delivering the service/product?

Sale and then construct Residential houses	Construct and then sale Residential houses	Construct and then sale Business spaces	Construct and then rent Business spaces	Sale and then construct Business spaces	Partially Construct and sale

4. Year of Experience as a real estate developer:

(Please Check (✓) the box that describes your answer appropriately)

≤ 3	3 > 6	More than 6 Years

B. ACCESS AND ADEQUACY OF SOURCES OF FINANCING

1. Which of the elements of your business environment included currently represents the biggest obstacle faced by your company?

Finding Customers	Competition	Access to finance	Cost of production or labour cost	Availability of skilled staff Or experience	Regulation

2. From where do you find finance for housing construction implementation?

From Owen /Equity Capital	Collection From Buyers	From Bank loan other financial institution	From foreign Financers	From Capital market

3. Who were the potential buyers of your service?

(Please Check (✓) the box that describes your answer appropriately)

Higher Income groups	Members of the diaspora	Middle Income groups	Lower Income groups

4. What is your predominant payment method?

(Please Check (✓) the box that describes your answer appropriately)

☐ Paying the full amount at once

☐ Down Payment during signing of sales contract and the remaining in instalment bases

☐ Pay some percentage down payment and the remaining in bank

☐ Pay Down payment and instalment payment and arrange loan for the remaining

5. In the last 3 years did you company sought long term construction loans from banks or other financial institutions (Please select only one answer):

☐ Never sought

☐ Granted and considered cheap

☐ Granted and considered adequate

☐ Granted and considered expensive

☐ Never granted although sought

6. Who were your potential lenders if loan is provided to your company for construction Purpose? (You can select more than one institution)

☐ Commercial Bank of Ethiopia

☐. Private Banks

☐ From foreign financers,

☐ Other local financial institutions

If there are others please specify _____

7. If Loan was provided, what did you use this last loan for?

☐ Working capital

☐ Land/ buildings or Equipment/vehicles

☐ Research and development or intellectual property

☐ Promotion

☐ Staff training for another business

If there are others please specify _____

8. If there is difficulty in obtaining long term loan, what do you think are the reasons?

☐ Unavailability of specialled mortgage banks & lending institution

☐ Inability & incapability of existing banks to provide loan to real estate developers

☐ High interest rate

☐ Strict requirement such as collateral & reliable source of income

☐ Luck of interest to take loan from the buyers and or the developer

9. Access to financing in your situation is considered:

☐ Easy

☐ Normal

☐ Difficult

B10. Dou you think the sources of finance were adequate in financing your projects?

☐ Yes   ☐ No

C. EFFECT AND FUTURE PROSPECTS OF ACCESS TO FINANCE ON HOUSE DEVELOPMENT PERFORMANCE

1. In your opinion, to what extent are the following financial scenarios an obstacle to the

Current operations of your establishment in the last 3 years? (Please Check (✓) the box that describes your answer appropriately)

1. Very severe obstacle

2. Major obstacles

3. Moderate obstacle

4. Minor obstacle

5. No obstacle

No	Description	1	2	3	4	5
a	High cost of acquiring land					
b	Luck of potential buyers					
c	Income level of household					
d	Shortage of initial investment					
e	Price escalation					
f	Unavailability of loan for buyers					

2. To What extent do you agree with the following lists?

1. Strongly Agree

2. Agree

3. Neutral

4. Disagree

5. Strongly Disagree

No	Description	1	2	3	4	5
a	Shortage of finance caused potential delay in our construction work					
b	Shortage of finance caused a significant amount of cost overrun					
c	3 Shortage of finance caused quality and workmanship problem					
d	Shortage of finance had significant effect on total delivery of houses					
e	Inadequacy of housing finance limited our contribution to employment Reduction and to the overall economy.					
f	Inadequacy of housing finance limited our contribution in solving housing Problem in Addis Ababa.					

3. With the current condition of access to finance, during the next 3 years, how fast would your enterprise grow (one answer only):

☐ Much faster

☐ Faster

☐ Remain as it is anyway

☐ Survival, which it under present conditions will likely be difficult

D Interviews Questionaries for real estate developers

1 From where did you get land?

2 How about selling price for residential on average, per square meter over the last five years?