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POLICY BRIEF

Affordable housing in Ghana

What's affordable housing?

As the Inclusive Business Action Network (IBAN) explains, answers to key questions on affordable housing – including what represents affordable housing, which category of the population should have it and the expected roles of different stakeholders in order to produce and allocate it – vary across countries (IBAN, 2017, 9). The absence of a universal definition of the concept of affordable housing is due to the different socio-economic contexts in which housing is produced and demanded across different countries, regions, cities and social groups.

A common approach spearheaded by the UN-Habitat is to define affordable housing as a function of household income and housing expenditure. In this approach, housing is defined as unaffordable if more than 30% of monthly or annual incomes of a household is spent on housing (UN-Habitat, 2010). In the view of UN-Habitat, spending more than 30% of household income on housing could have an adverse impact on other critical needs of households, including health, education, clothing and food. However, the 30% benchmark has not been applied across countries: for example, Canada until the 1980s used a 25% household income threshold (Hulchanski, 2005; IBAN, 2017) and in India a ceiling of 40% is the norm (Jones Lang LaSalle, 2012). In Ghana, the definition of affordable housing corresponds to the UN-Habitat's definition: a household spending not more than a third of household gross annual income on rent or price of housing (including taxes, insurance and utilities) (GoG/MWRWH, 2015,v).

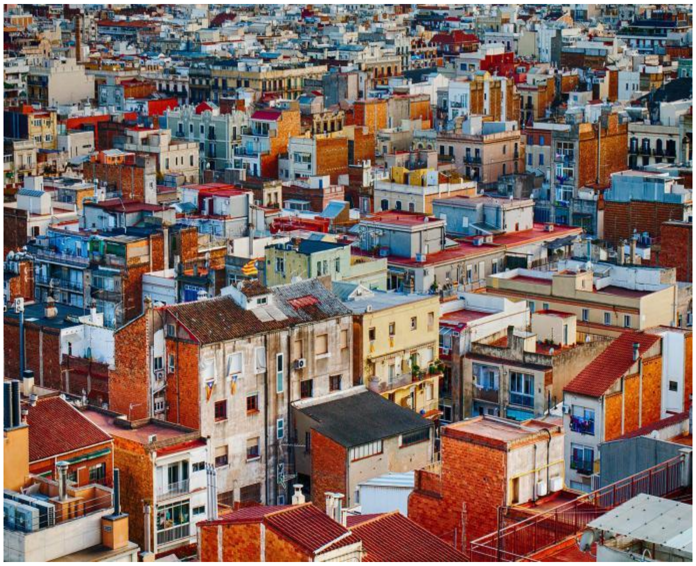
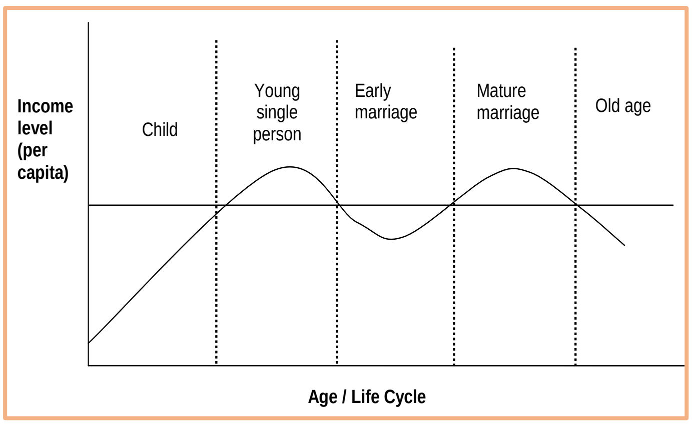


Photo: Pete Linforth / Pixabay

The issue of affordability of housing is closely connected with individual per capita income and life-cycle trajectory (Pugh, 1995; GSS, 2014) as illustrated in Figure 1. As such, population growth and its characteristics influence the rate of household formation, which, in turn, is a key driver of housing demand. In addition, housing needs and preferences at each stage of the life cycle are influenced by individual characteristics such as age, marital status, household size, occupation and income. Thus, while single and unmarried individuals may be satisfied with single-room rental housing, the situation will change during mature marriage stage, with a possibly larger household size. Yet income at the mature stage may not be enough to allow the individual or household to acquire a bigger housing unit. This means affordability is a concern at this stage of the life cycle. In essence, each stage of the life requires specific types of housing consistent with income level.

Figure 1: Per capita income of individuals and the life cycle



Source: Pugh (1995, 60)

Affordability of Housing in Ghana

A recent study notes that even for developed countries of Europe, lack of access to affordable housing and the resulting exclusion of sections of the population from housing are among the key risks faced by cities, regions and countries at large, with total annual costs to European economies standing at €195 billion. The study adds that one in 10 Europeans spends more than 40% of their income on housing-related expenses. It concludes that the human and economic cost of policy failure to provide adequate affordable housing, or in some cases a policy vacuum that leaves access to housing to the market, is becoming difficult to brush over. In the last two decades, affordable housing has taken a policy centre stage in Ghana as reflected in the various national level policy documents: first comprehensive National Housing Policy (NHP), 2015, various medium-term development policy frameworks, and manifesto documents of all major political parties.

In addition, since the beginning of the millennium, government has initiated a number of housing projects tagged with the label "affordable housing". However, many of these schemes have been caught up in contractual and political tussles between the two main political parties, that is, the New Patriotic Party (NPP) and the National Democratic Congress (NDC). This has affected the completion of many of these projects such as the Saglemi and Kpone projects in the Greater Accra Region and the Asokore-Mampong project in the Ashanti Region. While the quantity of housing units in these projects remain inadequate in relation to the growing housing deficits, the key issue is affordability and pricing of the houses built as many of these projects, when completed, are way beyond the means of many households.

Table 1: Affordability analysis using GLSS 6 mean household income indexed to 2016

Affordability in US$	*Greater Accra Metropolitan Area*	*Other Urban*	*All Urban*	*All Rural*
At HC:Y Ratio of 3	13,672.23	18,252.52	16,809.52	9,162.10
At HC:Y Ratio of 4	18,229.64	24,336.69	22,412.70	12,216.13
At HC:Y Ratio of 5	22,787.05	30,420.86	28,015.87	15,270.17

Source: IBAN 2017, 23 (ISSER, 2019, 112)

An affordability analysis conducted by IBAN (2017) using housing costs-to-mean household income ratios (HC: Y) in Ghana as shown in Table 1 revealed that when households are able to spend three times their incomes, the cheapest house they can afford (to own or rent) would be almost US$17,000 for urban areas and over US$9,000 in rural areas. If households can manage to spend five times more than their incomes, the house they can afford would be about US$28,000 and almost US$15,300 for urban and rural areas respectively. Also, studies have revealed that the least expensive house in Accra is priced between US$55,211 and US$67,633 (CAHF, 2017). Meanwhile, Table 1 shows that in the Greater Accra Metropolitan Area (GAMA), for households prepared to spend three times their income, the lowest priced housing they can afford is about US$13,700.

Challenges of affordable housing

Many households in Ghana, especially the poor and low-income groups, are priced out of the housing sector. In other words, the rhetoric of promoting affordable housing is not matched by the reality. According to Government of Ghana (GoG)/Ministry of Water Resources, Works & Housing (MWRWH) (2015, 2), "only a small proportion of houses delivered have filtered to the low-income population where the need is greatest. Even in instances where housing schemes were deliberately targeted at the urban poor, such schemes still remained out of their reach."

While on the demand side of housing, the key issue is affordability within the context of low household incomes, there are a number of constraints impacting adversely on the delivery of affordable housing (supply side) in Ghana.

Key constraints include:

- access to land (rising land prices and land scarcity, litigation, multiple sale of land);
- inadequate finance, mainly limited mortgages (near absence of long-term financing, weak borrower credit appraisal system and high interest rates) (Teye et al., 2015);
- limited use of local building materials; and
- outdated building codes and regulations.

CONCLUSION AND POLICY RECOMMENDATIONS

The absence of affordable housing provision by the state implies that many Ghanaians in urban and rural areas adopt the self-build and incremental housing development approach. Even where affordable housing projects have been initiated, challenges with land in terms of cost and accessibility have resulted in many of these projects being located in places far away from built-up areas in order to take advantage of relatively low land prices. The consequence is that besides the price of these properties, other constraints for low-income earners include transport costs and the challenges of daily commuting in the absence of a proper public transport system.

In broad terms, affordable housing delivered by either the state or private sector is out of the reach of many households. This demand side constraint relates to the inability of household income to meet the price of decent housing. Consequently, the housing supply is not able to meet demand for housing. Four key factors on the supply side of affordable housing need serious attention, namely: cost and access to land, inadequate finance in terms of the cost of credit and long-term funding, limited use of local building materials, and outdated building codes and regulations.

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A full version of this policy brief titled 'Housing' can be found in Ghana Social Development Outlook 2018 (ISSER, 2019, 103-119)

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