

Slum Real Estate: The Low-Quality High-Price Puzzle in Nairobi's Slum Rental Market and its Implications for Theory and Practice

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Summary. — This study of 1755 households in Nairobi's slums challenges the conventional belief that slums offer low-quality low-cost shelter to a population that cannot afford better standards. In Nairobi, slums provide low-quality but high-cost shelter. Although slum residents pay millions of dollars in rents annually, and better quality units command higher rents, very little is being re-invested to upgrade quality. To resolve the challenge that the Nairobi puzzle poses for theory and practice, we develop a new analytical framework for understanding quality of living conditions. Improving conditions in Nairobi's slums requires, we argue, two simultaneous interventions: alteration of the tenure mix to enhance owner occupancy and infrastructure investment.

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Key words — informal housing markets, tenure, infrastructure, slum upgrading, quality, Kenya, Africa

1. INTRODUCTION

In a report titled *Challenge of Slums*, the United Nations-HABITAT (2003) estimated that, in 2001, about 870 million people were living in urban slums in developing countries. If current trends continue unchecked, the report argues, the number of slum residents will grow to 1.43 billion by 2020. World leaders and development agencies are again, after a significant hiatus, displaying their concern about the issue, and slums appear to be back on the core development agenda. At UN-sponsored summits in 2000 and 2002, world leaders agreed to a set of millennium development goals which include a commitment to significantly improve the lives of at least 100 million slum dwellers by 2020 (UN-HABITAT, 2003). In a nation such as Kenya, this commitment now appears in national development plans and is highlighted as a key task in the National Economic

Recovery Strategy (Government of Kenya, 2003).

The commitment to improve the lives of slum dwellers is well intentioned and important, but the task of achieving this goal is fraught with problems (Gulyani & Bassett, 2007; World

* We are grateful to Natasha Iskander, Ellen Bassett, Peter Marcuse, Jacqueline Klopp, and four anonymous reviewers for excellent comments; Jaime Biderman, Geoffrey Bergen, Colin Bruce, Makhtar Diop, and Matthew Glasser for strongly supporting this study; James Mutero for leading the fieldwork in Nairobi; Alyssa Boyer and Cuz Potter for research assistance; Adam Samuel for editing tips; and the World Bank and Norwegian Trust Fund for financing this work. The views expressed here are neither attributable to nor necessarily shared by the World Bank. Final revision accepted: February 22, 2008.

Bank, 2006). First, a generation of earlier efforts, starting in the 1970s, to upgrade urban slums has, at best, been only partially successful. Second, there is little information on and understanding of urban poverty in general, and the situation in slums in particular—there are few large-scale or representative studies that examine the current lives of slum residents, their living conditions, or the nature of poverty that they face. Consequently, in most developing countries, there are no reliable estimates even of basic indicators—such as the number of people residing in these slums and the proportion of them that are poor. The UN-HABITAT's figures cited above are also the subject of much contention and debate, and the data problem is particularly acute in Sub-Saharan Africa. This type of ambiguity regarding scale combined with the lack of systematic studies documenting conditions inside informal settlements, means that our understanding of the nature of slums and their dynamics is extremely limited. Such a partial understanding may well have been a key reason for the limited success of previous programs, and is highly likely to confound the design, implementation, and success of the forthcoming generation of slum-improvement efforts as well.

As a step toward addressing this gap in our knowledge base, we conducted a large-scale, and representative study of 1,755 households residing in Nairobi's slums.¹ The focus was on understanding who lives there, what they do, and how they live. In this paper, we use data from our population-weighted stratified random sample to examine one aspect of life in the slums—quality of housing and living conditions, and its relationship to the price residents pay for their accommodation. Specifically, we focus on the following questions: *how inadequately housed and under-served are slum residents in Nairobi? How much do they pay for their housing and what factors explain variation in their rents?*

The literature on housing in developing countries valorizes slums as an affordable option for the low-income (see Gulyani & Bassett, 2007 for a recent review). It argues that although slums are sub-par from a technocratic planning perspective and unpleasant by middle-class standards, they play a crucial role by providing shelter at low-cost to the urban poor. Further, if given even implicit recognition by government—for instance, through a moratorium on evictions—these settlements consolidate and housing improves over time.

We find that Nairobi's slums constitute a serious challenge to the aforesaid conventional wisdom. In Nairobi, the slums indeed cater to low-income residents and offer low-quality living conditions. The surprise is that the residents, most of whom are very poor, are paying a large sum of money in rents each year—in 2004 they paid, on average, US\$126 (Ksh 9840) per household, amounting to a cumulative sum of about US\$31 million (Ksh 2.35 billion). Despite such large payments and a significant history of implicit recognition by government, however, housing in the slums has not improved and consolidated. In other words, Nairobi's slums offer low-quality but high-cost housing, and, even worse, they seem to be stuck in this sub-optimal equilibrium. By identifying this puzzle and providing a rare insight into the scale and nature of Nairobi's massive informal rental market, this paper makes an empirical contribution.

Further, to resolve the challenge that the Nairobi case poses for both theory and practice, we develop a new framework for analyzing and improving “quality of living conditions.” Specifically, we argue that quality of living conditions must be understood along four dimensions—tenure, infrastructure, the unit itself, and the neighborhood—and that these factors interact with each other to determine the outcome. Using this framework, we show why Nairobi's slums are stuck in a low-quality high-cost trap, and suggest how one might intervene to improve the situation. The framework also helps us understand, for example, why a slum upgrading program that focuses on improving infrastructure (rather than, say, changing the tenure status) may be the right approach in certain contexts, but is likely to fail in Nairobi's slums. At a broader level, this framework offers a step toward a more complete theory of living conditions and their dynamics—because it facilitates a multi-dimensional understanding of quality, highlights interactions among variables and over time, and helps explain variation among contexts.

This paper is structured as follows. Section 2 briefly reviews the research methodology, poverty incidence in the slums, and demographics of slum households. Section 3 focuses on living conditions—it presents the analytical framework and uses it to assess quality in Nairobi's slums. Section 4 examines the rental market and factors influencing rents. Section 5 returns to the framework, and Section 6 concludes.

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