



# Cost of being a slum dweller in Nairobi: Living under dismal conditions but still paying a housing rent premium



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## ABSTRACT

The UN notes that the current global slum population of nearly one billion not only reflects “a rather unacceptable contemporary reality, but one whose numbers are continuously swelling.” Not surprisingly, its latest global development priorities, announced through its *Sustainable Development Goals* agenda in 2015, emphasize addressing the slum challenge in developing countries as a major goal. Our study focuses on gaining an in-depth understanding of the nature and extent of such slum challenge faced by Nairobi. Specifically, using data from a recent (2012–13) statistically representative survey, we conduct a systematic empirical analysis of the rental housing market conditions faced by households living in slum versus formal areas of Nairobi. Our analysis findings establish relevant benchmarking for key policy relevant measures against which to evaluate the efficacy of new policy initiatives.

Taken together, our findings show that the households in Nairobi’s slum areas, compared to their counterparts in formal areas, are currently facing a substantial double jeopardy. On one hand, they face significant disparity gaps – about 24 percentage points in less coverage – across a myriad of housing and living condition indicators. For some basic services like water, toilet and public sewage disposal, the gaps are as high as 40–50 percentage points. On the other hand, we were able to quantify for the first time the extent of rent premium – about 16 percent – that Nairobi’s slum tenants are paying relative to their formal area counterparts, after adjusting for housing quality conditions. While our study’s primary goal was on demonstrating the presence and the extent of the double jeopardy, it also sheds important insights from normative policy perspectives. A novel insight here is that although formal tenure agreements are rare in Nairobi’s slums, the tenants do pay a rent premium of about 18 percent if they possess such agreements.

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## 1. Introduction

### 1.1. Motivational backdrop to our study

An upshot of the global urbanization trend has been the concomitant growth of slums or informal settlements in the shadows of modern, formal urban settlements in developing countries (Fox, 2014). These slums are densely populated urban areas characterized by poor-quality housing, lack of adequate living space and public services, and they accommodate large numbers of informal

residents with generally insecure tenure<sup>1</sup> (Marx, Stoker, & Suri, 2013a). As per the UN-Habitat (2016), currently about a quarter of global urban population lives in slums, nearly 90 percent of whom in developing countries. That translates to about a billion slum dwellers worldwide!

There is a growing recognition that slums essentially represent “poverty traps” for majority of its residents in developing countries with enormous adverse consequences for our society in terms of

<sup>1</sup> As Marx et al. (2013a) notes: “Perhaps not surprisingly, the identification of slum inhabitants suffers from the lack of a consistent terminology – for example, “slums” and “squatter settlements” are used almost interchangeably, although tenure and ownership institutions vary greatly across informal settlements.” UN-Habitat (2006) defines an urban slum household who lacks one or more of the following: (1) durable housing of a permanent nature that protects against extreme climate conditions; (2) sufficient living space which means not more than three people sharing the same room; (3) easy access to safe water in sufficient amounts at an affordable price; (4) access to adequate sanitation in the form of a private or public toilet shared by a reasonable number of people; (5) security of tenure that prevents forced evictions.

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human health and social capital (Fox, 2014; Marx et al., 2013a). Further, the sheer size and persistency of the global slum problem represent a huge obstacle to the notion of global sustainable development (UN-Habitat, 2003, 2012). For instance, since 1990, almost 200 million new slum dwellers have been added to the global population (UN-Habitat, 2016). Also, the current global slum population of nearly one billion represents an increase of 28 per cent in slum dwellers' absolute numbers worldwide over the past 15 years. As the UN-Habitat (2016) notes: "This [global slum population] not only amounts to a rather unacceptable contemporary reality but to one whose numbers are continuously swelling. . . the slum challenge remains a critical factor for the persistence of poverty in the world, excluding fellow humans and citizens from the benefits of urbanization and from fair and equal opportunities to attain individual and collective progress." Not surprisingly, the UN's latest global development priorities, announced in 2015 as part of its *Sustainable Development Goals* (SDG) agenda, include addressing the slum challenge in developing countries as a major goal (UN, 2015, 2016).

Specifically, a key priority in the UN's SDG agenda is the goal of inclusive urban development as a core imperative to pursuing overall sustainable development (UN, 2016, 2017). From a policy perspective, it requires addressing any wide disparities in the level and nature of inequities that may exist among urban dwellers across key segments – e.g., by poverty status, by settlement type (formal vs. informal), and by gender (McGranahan, Schensul, & Singh, 2016). That in turn calls for an in-depth understanding of the basic living conditions currently experienced by these various urban resident segments, since those conditions have been shown to be instrumental in facilitating or hindering socio economic developments for households, individually and collectively (e.g., Parikh, Fu, Parikh, Mcrobie, & George, 2015). Unfortunately, as the UN (2015, 2016, 2017) observes, a major obstacle to implementing its SDG agenda is paucity, especially in Africa, of rigorously collected, disaggregate level data.

In fact, in most developing countries there are no reliable estimates on even the basic indicators of living conditions of slum dwellers (UN, 2015, 2017). Such paucity makes it difficult to justify, design and implement appropriate programs for households living in these slum settlements and even harder to assess the impacts of policies and programs that do get implemented. Not surprisingly, expanding our current limited knowledge base to more effectively address the global slum challenge has become a critical research imperative among academic scholars in relevant disciplines (Fox, 2014; Marx et al., 2013a). Therein lies the motivational rationale of our current research, whose broad goal is to contribute to our current limited knowledge base for effectively addressing the global slum challenge.

### 1.2. Focus and contributions of our study

Specifically, using data from a recent (2012–13) statistically representative survey by the World Bank, our research conducts a systematic empirical study of housing and neighborhood living conditions of households in Nairobi, Kenya to address the following set of four inter-related questions. First, with respect to basic living conditions, how big are the current disparity gaps between households living in formal versus slum areas within Nairobi? Second, to what extent are those disparity gaps driven by "where people live" versus "who the people are" in terms of poverty and gender status? For instance, do households living in formal areas of Nairobi systematically enjoy better living conditions because they happen to be richer, or because they happen to live in areas that are better covered by public infrastructure services? Conversely, do households living in slum areas of Nairobi systematically suffer from worse living conditions because they happen to

be poorer, or because they happen to live in areas that are not well covered by public infrastructure services? If it is the first, then observed disparity is primarily driven by affordability gap on the demand side, and the consequent policy imperative needs to mostly focus on poverty alleviation and pricing of public goods. If it is the second, then disparity is primarily driven by coverage gap from the supply side, and the policy imperative needs to focus on appropriate capital investments for provision of public goods.

Third, what does the rental housing market in Nairobi tell us about revealed market valuations by Nairobi households for various facets of housing and neighborhood living conditions? For instance, how valued is a formal tenancy right for households living in slum areas? The answer will provide extremely policy relevant insights into latent demand among Nairobi's slum dwellers for formal tenancy right and their level of willingness to pay for it. Fourth, are the tenants in Nairobi's informal housing market facing a double jeopardy – not only experiencing dismal living conditions, but also paying a higher rent for comparable housing quality? In other words, after adjusting for housing and neighborhood living condition differences, are the renters in slum areas paying a "slum-premium", and if so, how much?

When it comes to enhancing our current understanding of issues related to the global slum challenge, the geographic scope of our research focus is especially relevant at multiple levels. At the regional level, Sub-Saharan Africa represents one of the world's fastest urbanizing region and its slum settlements are the ones absorbing an increasing share of this expanding urban population (Fox, 2014; UN-Habitat, 2014). Currently, 59 per cent of the urban population in this region lives in slums and slum populations are growing at a rate at which populations double every 15 years. At the country level, Kenya represents a country where about 56 per cent of its urban population currently lives in slums (UN-Habitat, 2016). It is expected that the absolute number of Kenya's urban slum population is only going to expand as the country urbanizes at a fast rate of 4.5 percent per year. Finally, at the city level, Nairobi, the capital city of Kenya, is not only its largest urban center, but it also bears the dubious distinction of having one of the largest urban slum settlements in Africa (Archambault, de Laat, & Zulu, 2012; Bird, Montebruno, & Regan, 2017). Remarkably, in Nairobi, slums cover just 6 per cent of the total residential land area, and yet they house 60 per cent of the city's population (UN-Habitat, 2016). Not surprisingly, addressing the massive slum challenge in Nairobi remains a critical policy priority at both the city and national levels (Meredith & MacDonald, 2017; Myers, 2015).

In terms of its substantive scope, our study contributes to the existing literature stream on empirical understanding of informal housing market conditions faced by slum dwellers in developing countries. As noted earlier, the existing studies that are based on systematic analyses of statistically rigorous disaggregate level data remain limited in this literature stream (Marx et al., 2013a). At the same time, the *Millennium Development Goals* initiative by the UN in early 2000s did lead to peer-reviewed publications of several such systematic empirical studies on slums (e.g., see Amendah, Buigut, & Mohamed, 2014; Archambault et al., 2012; Bird et al., 2017; Gulyani & Talukdar, 2008; Gulyani, Talukdar, & Kariuki, 2005; Gulyani, Bassett, & Talukdar, 2012, 2014; Marx et al., 2013a; Parikh et al., 2015; Nakamura, 2017). Our study builds on these studies and extends them in several substantive and novel ways.

First, our study provides the most recent insights into the disparities in housing and neighborhood living conditions between Nairobi's slum and formal areas<sup>2</sup>. These insights help to augment

<sup>2</sup> Outside of the gray literature, the most recent year for which we have systematic insights into the living conditions of Nairobi's slum households is 2009 (Bird et al., 2017).

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