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Urban Housing Affordability in Zimbabwe: The Case of Homelink Housing Mortgage Scheme

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Abstract

The purpose of the study was to understand the factors that affect the affordability of urban housing with regards to the Homelink Housing mortgage scheme in Bindura, Zimbabwe. The study utilized qualitative methodology while a case study research design of Homelink was used. Data was collected using key informant interviews, surveys, and secondary data. A total of 30 participants were purposively selected to participate in the study. Data were analyzed using the Statistical Package for Social Sciences (SPSS). The findings of the study showed that there were five key factors that affected the affordability of urban housing in Zimbabwe. These are loan repayment, interest on the loan, inflation rate, loss of regular employment, and cost of construction. The conclusions of the study are that the affordability of housing in Zimbabwe is influenced by factors related to the socio-economic characteristics of households and loan characteristics.

Key words: Housing; Affordability; Mortgage; Bindura; Macro-Economic; Homelink; Inflation; Zimbabwe

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1. INTRODUCTION

Access to housing is a fundamental basic human right that every individual is entitled to (Akinwunmi, 2009). There are various international instruments that enshrine the right to housing. These include the United Nations Human Rights Declaration of 1948, the International Covenant on Economic, Social and Cultural Rights of 1966, the Istanbul Declaration and Habitat Agenda of 1996 and the Declaration on Cities and other Human Settlements of 200. Locally the right to housing is enshrined in the Constitution of Zimbabwe (2013 and the Housing Fund and the Housing Guarantee Fund.

The demand for housing in Zimbabwe has increased to due to rural-urban migration witnessed in the 1990s. Access to housing is an indicator of development and welfare in a country due to its economic, social, and political nature (Chirchir, 2006). Investing in housing is regarded as an investment for most households. Housing contributes in reducing poverty, generating income through rentals, improved productivity and health well-being. Owning a house is regarded as an asset (Alhashin & Dwyer, 2004). In urban areas purchasing or owning a house is regarded as a major asset and an investment. Habitable housing contributes to the health, efficiency, social behaviour and general welfare of the population (Nubi, 2008). Improved health and education and better access to income earning opportunities can lead to higher productivity and earnings for families. Housing plays the role of promoting privacy, dignity, safety and status among people. Politically, proper housing reduces political unrest emanating from shelter deprivation and frustration of people living in slums and informal settlements. According to Semple (2007) housing is important to the development of stable and sustainable communities.

Like most of the other developing countries in Africa, Zimbabwe's housing sector has experienced severe housing shortages relative to demand. While demand has been rising consistently over the years, supply has been slow to respond, meeting only approximately between 10% of the actual demand. Mortgage interest rates have mainly fluctuated between the 25 percent to 36 percent

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level from 2019 into 2020 during the lockdown period, despite rapid changes in the overnight accommodation rate. From a housing perspective, the property market in Zimbabwe has remained disrupted by widespread uncertainty over the value of the local currency, which has influenced potential sellers to hold onto their properties. The high cost and unavailability of mortgage finance frustrates aspiring homebuyers, and new housing is inhibited by inflationary increases in the cost of building materials. However, the demand for affordable housing continues to increase, spurred by rural-to-urban migration. This has resulted in the mushrooming of illegal settlements on the periphery of major cities and towns. In many cases, rogue land barons have taken advantage of the circumstances and haphazardly demarcated and sold pieces of land, some smaller than the stipulated minimum size of 70 square meters (Matika, 2020). This has prompted incremental construction of structures close to each other, creating clusters of illegal settlements without running water and proper sanitation. In 2014, 60 such settlements existed in and around the capital, Harare (Environment and Urbanisation, 2014). An estimated one in four urban dwellers live in these slums (Moyo, 2020).

Most Urban Councils in Zimbabwe are struggling to provide housing to residents. According to the UN-Habitat (2011), it was estimated that African countries needed to construct over 60 million new houses in order to accommodate the rapidly growing number of new urban households. Most housing conditions in urban areas are very poor. The majority of urban dwellers live in informal settlements that are not fit for human habitation. The major reasons for poor housing conditions in Zimbabwe include poor policies and limited resources available to meet the rapid urban population growth. This has given rise to substantial gaps between housing supply and demand in most urban councils. According to the UN-habitat (2011) the price of houses in Zimbabwe is too expensive. The inputs to housing are too expensive especially land, finance and building materials.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

There are several theories that have been advanced to explain various phenomena in housing. The theories have been applied to a wide variety of topics in housing research including housing decisions, housing satisfaction and preferences, residential mobility, and effects of home ownership (Steggel et al. 2003). While these theories are useful in advancing knowledge in housing research, they do not explicitly explain the aspect of housing affordability which is the subject of this research. The best theories that explain affordability are those drawn from the classical welfare economics. The two important theories on affordability that have been identified in the literature are the Public Interest Economic Regulation Theory (PIERT) and the Theory of Distributive Justice. When applied to housing affordability, the two theories argue that affordability problems are as a result of imperfections in the housing market. The imperfections in the housing market contribute to the volatility of house prices sometimes pushing them beyond the reach of segments of the population with modest incomes. The two theories calls for governments to intervene in the housing market to correct the imperfections and make housing accessible and affordable to all social economic groups in society. The following discussion examines in detail the Public Interest Economic Regulation Theory (PIERT) and the Theory of Distributive Justice.

2.1 Public Interest Economic Regulation Theory

Public interest economic regulation theory (PIERT) also referred to as the normative theory of market-failure, is built around the classical welfare economics which is concerned with the promotion and protection of people's utility and welfare. This theory offers solution to affordability problems by advocating for appropriate government intervention in the housing market to ensure optimal and efficient allocation of the housing resource. The theory is based on the idea of an existence of common interest (public interest) of which governments are more suited to provide and protect through regulation. Regulation in this context refers to legislative and administrative controls and actions that governments employ to influence prices, production and market entry including interventions in the form of quotas, tariffs, subsidies, and taxes (Okechukwu, 2009).

The public interest theory holds that government interventions in markets through regulation are a reaction to demands by the public for the government to correct inefficient or inequitable market practices (Guerin, 2003). Regulation is instituted on the assumption that markets are inherently inefficient and that only the government is capable of fixing the market failure so that the optimal efficient outcome is realized. Regulation further assumes that the benefits of government interventions in markets outweigh the costs created by the interventions. According to Guerin (2003), benefits from regulation may take many forms but these can be distilled down to an improvement in the welfare of an individual or group, and may occur through reduced costs of goods and services or increased income of the producers of goods and services. Rittenberg et al. (2004) indicates that regulation is necessary to lower prices of goods and services, to increase output and to prevent cut throat competition. Regulation is also necessary to guarantee the availability and accessibility of essential goods and services.

Theoretically, under conditions of perfect competition, markets are able to allocate resources equitably and efficiently. However, in practice, this is usually not so, as many forces in the real world often influence the

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market to allocate resources less efficiently than the ideal competitive market. The conditions of perfect competition include, among others; uniformity or homogeneity of the product, few or negligible transaction costs are involved and that the market is assumed to have so many buyers and sellers all with perfect knowledge and information about the market and the product being traded. In the real world, however, most markets rarely operate within such ideal conditions and this leads to inefficiencies in the allocation of goods and resources due to 'market failures' in the form of, for example, monopolies, incomplete markets, externalities, public goods and imperfect information. The situation is worse in the housing market, which is characterized by serious imperfections. The imperfections in the housing market are as a result of the peculiar or unique characteristics of housing. Public interest economic regulation theory is built around the imperfections and inefficiencies of markets. The theory argues that market failure is principally caused by self-seeking behaviour of agents and lack of incentives to act co-operatively or take account of social costs of their actions within market process. This situation justifies a third party (usually government) intervention to mediate, remedy or enhance cooperative behaviour among agents within the society (Hagg, 1997; Mackay; 1999; Hertg, 2003). The theory predicts that regulation will be instituted to improve economic efficiency and protect social values by correcting market imperfections. This will eventually result to equitable access to resources by all segments of the population and at a more affordable cost.

Applying this theory to housing would mean that governments are expected to ameliorate housing market failures and moderate such markets through appropriate interventions that deliver adequate housing to its citizens. The challenge for governments is, however, on how best to intervene efficiently in order to ensure the development of a more equitable housing delivery system. As has been observed by pro-market theorists, inappropriate government controls and regulation are themselves bad and could lead to more distortions in the housing market. In fact, dominant International Financial Institutions such as the World Bank and International Monetary Fund (IMF) discourage and condemn direct government involvement in housing as distortions that hinder market efficiency insisting that pro-market policy reforms promote market efficiency and stimulate economic growth (Pugh, 1994).

The theory of public interest economic regulation, however, advocates for careful government intervention in a way that does not distort the housing market. It calls for better and more viable means of market intervention in the effort to develop national housing sectors and guarantee the housing interest of the lower and middle income groups of the urban population. Key areas where intervention is needed include the land market, housing finance, infrastructure and access to cheap building materials. The cumulative effect of the interventions should be to improve access to adequate housing and reduce the cost of housing per person thus making housing more affordable and accessible among all social-economic groups in the society.

2.2 The Theory of Distributive Justice

Distributive justice generally refers to justice in assigning benefits (and burdens) among members of the society. According to Maiese (2003), distributive justice is concerned with the fair allocation of resources among diverse members of a community. Armstrong (2012) defines distributive justice as the ways in which the benefits and burdens of our lives are shared between members of a society. The theory of distributive justice is thus concerned with justice and fairness in the distribution of social goods and services within a community. The theory argues that common resources should be distributed in a reasonable manner which guarantees every individual a fair share of the distributed resource. However, given the scarcity of resources, the challenge has been on how to allocate scarce resources among diverse individuals, groups and sectors that make up any given society. What actually constitute fair share has always been a very contentious issue. As has been contended by Strevens (in Okechukwu,2009), there are deep conflicts embedded in our way of thinking about distributive justice so that in certain kinds of cases, we are internally divided about the guidelines we should follow to decide who deserves what in resource distribution.

The criteria in resource allocation and distribution in many societies have always been guided by three principles, namely; equality, equity and need. However, each of the criterion has some limitations. For example, according to the equality criterion, goods should be distributed equally among all persons giving each person same amount of resources. With this criterion, therefore, people with different levels of needs end up getting the same amount of resources and this often result to an unfair distributive outcome. If the equity criterion is adopted which would ensure that benefits are shared in proportion to the individuals' contribution, those who make a greater contribution to their group would end up receiving greater benefits irrespective of needs.

The equity criterion thus tends to reinforce and perpetuate inequality within the society. The richer members of the society, who normally make greater productive contributions to the economy, would continue to enjoy greater proportions of benefits which tend to reinforce social inequality while undermining the ability of the less privileged to compete within the same economy. And if the needs criterion is applied, an equal distributive outcome would result as those who need more would receive more. However, this criterion ignores differences in talent and effort which would serve as a dis-incentive

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to production and efficiency. The people who contribute more in the production process will feel discouraged when they see others who are less efficient or less productive enjoying the same level of benefits. According to Maiese (2003), some philosophers have suggested a system of resource distribution that includes safety nets for those members of society who cannot compete. This system combines the principle of equity with that of need and tries to reward people for their productivity while at the same time ensuring that their basic needs are met. Also, resources might be distributed according to social utility, or what is in the best interest of society as a whole.

In their work on equity, equality and need, Folger, et al. (1995) have suggested that these criteria of resource distribution are not principles adopted for their own sake but rather endorsed to advance some social goal. For example, equity criterion tends to foster productivity, principle of equality stresses the importance of positive interpersonal relationships and a sense of belonging among society members while the need criterion tends to ensure that everyone's basic and essential needs are met (Maiese, 2003). It has been observed that given that these (equity, equality and need) principles are often in tension with one another, one of them is usually taken as the central criterion of resource distribution. There has been, however, considerable debate on which principle is to be adopted in resource allocation. While some writers have argued in favour of strict egalitarianism or strict equality in resource sharing, others have argued in favour of the 'needs criterion' in resource distribution among members of society. For example, Rawls (1996) while contributing to the theory of distributive justice suggested that all social and basic goods should be distributed equally unless an unequal distribution of any or all of the goods is to the advantage of the least favoured in society.

Thus according to Rawls (1996) in the distribution of resources, favourable considerations in benefits should be directed to the least advantaged (needy) in the society, and as long as this is done, it doesn't matter even if the resource distribution mechanism is perceived as being unequal. While there is no single agreed definition of housing affordability, the term refers broadly to a person's ability to pay for their housing (O'Flynn, 2011; Bujang et al. 2010). It is a tenure neutral term. By this it means that it relates to both home-ownership affordability and rental market affordability. In this study, however, the term is used within the context of home ownership affordability. According to Gabriel et al. (2005), one of the most helpful statements about what housing affordability entails was provided by MacLennan & Williams (1990) in stating that affordability' is concerned with securing some given standard of housing (or different standards) at a price or rent which does not impose, in the eyes of some third party (usually government), an unreasonable burden on household incomes'.

A research for the Australian Housing and Urban Research Institute (AHURI) cited in O'Flynn (2011) considered housing affordability to be an expression of the social and material experiences of households, in relation to their individual housing situations. Affordability expresses the challenge each household faces in balancing the cost of their actual or potential housing, on the one hand, and their non-housing expenditures, on the other, within the constraints of their income.

Bramley (1990 in Mostafa et al. 2005) has specified that 'households should be able to occupy housing that meets well established (social housing) norms of adequacy (given household type and size) at a price or rent which leaves them enough income to live on without falling below some poverty standard'. A household is said to have a housing affordability problem if after paying for housing services it is left with insufficient income to enable it meet its other basic needs. This expression agrees with the definition of affordability as given by the Australian National Housing Strategy (NHS) as stated above, which emphasized the need for households to pay for housing at costs which leaves them with sufficient income to pay for other household basic needs.

Affordability is, therefore, expressed as the relationship between housing expenditure and household income and establishes a standard in respect of which the amount of income spent on housing is deemed unaffordable. The standard is defined in terms of an absolute residual income once housing costs have been met, or as a ratio measure specifying the acceptable proportion of household income to be spent on housing. In the section below, the various approaches to measuring affordability are discussed. The main approaches are the ratio and the residual measures. As noted in the discussion, the ratio measures are the simplest and most explicit approaches to measuring affordability and have been adopted in this study as the appropriate definition and measurement of housing affordability in the home ownership mortgage housing sector in Zimbabwe. Specifically, the simple housing cost-to- income ratio has been adopted as the appropriate measure of affordability of the households considered in the study.

2.3 Affordability Measures

There are two main approaches to measuring affordability. These are:

2.3.1 The Ratio Measures

Ratio measures are the most commonly used measures of housing affordability. The approach is variously referred to as; housing expenditure- to- income ratio, house purchase-to- income ratio or simply the housing cost approach. The ratio approach conceives housing affordability as a measure of the ratio between what households pay for their housing and what they earn. In simple terms, the ratio is an expression of the relationship between household's income and housing expenditure and

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indicates the proportion of family income that goes into the payment for their housing (Bujang et al. 2010). In the home ownership (mortgage) housing sector, the ratio is the proportion of the household's income that goes into repayment of the mortgage loan.

2.3.2 Residual Measures

Residual measures are variously referred to as 'after poverty', 'non- shelter first', 'shelter Poverty', 'living standard measures' or simply basic non-housing cost approach. Residual measures conceive housing affordability from a basic non-housing consumption perspective. The measures are concerned with the relationship between housing costs and the capacity of a household to maintain an acceptable standard of living after paying for the cost of their housing (Johnston, 2008). According to Milligan (2003 in Gabriel et al. 2005), residual measures focus on the income remaining after housing costs are met and considers whether housing is affordable in the context of current income levels and essential household expenditure. Under the residual approach, a household after paying for housing should be left with adequate residual income that enables it to comfortably meet other household basic necessities such as food, clothing, health and education. Stone (1993 in Okechukwu, 2009) argue that since housing costs generally make the first claim of a household's disposable income with non-housing expenditure having to be adjusted to whatever remains of the income, the most a household should be required to pay for housing is that which leave it able to meet non-housing basics at a minimum level of adequacy. A household is, therefore, paying more than it can afford for housing if after paying for housing, it is left with insufficient income to meet other basic household needs.

Residual measures thus entail establishing the minimum residual income that will enable households to sustain an acceptable standard of living. The acceptable residual income to guarantee minimum standard of living after paying for housing is determined using either the poverty line approach or the budget standards approach. Under the poverty line approach, residual incomes are linked to the official poverty line thresholds as defined by countries for specific localities or regions. Budget standards are also prepared for countries and can also be used to define the minimum residual income for households. Budget standards determine the acceptable minimum standard of expenditure consistent with a modest budget (Burke, 2003). According to Saunders et al. (1998b), a budget standard for a country sets to represent what households' needs in a particular place at a particular point in time, in order to achieve a specific standard of living.

Yates & Gabriel (in O'Flynn 2011), consider the main advantage of residual measure to be its ability to consider the impact of household structure on household needs by taking into account differences in non-housing needs for different household types. However, they emphasize that this is also a weakness of the measure because it requires a judgment (sometimes subjective) to be made as to what these non-housing needs are. A perceived further weakness of the residual measure is that it imposes 'more onerous data requirements' and can be complex and time consuming.

2.3.3 Other Measures

Although the ratio and residual measures are the most common approaches to measuring affordability that have been identified in the literature, there are also other measures of affordability which needs to be mentioned. There is for instance, the Accessibility/Deposit Gap Method which only applies to measurement of home-ownership affordability. The method attempts to measure the savings/deposit required to purchase a home and the ability of the purchaser to secure the necessary mortgage for the purchase. As noted by smith (in O'Flynn 2011), this is often seen as the difference between house prices and the maximum borrowing capacity of households, or the gap that needs to be made up by a deposit. The other approach of measuring affordability is by comparing house price with incomes. That is, you compare the rate of increase of house prices with rate of increase in incomes and see whether affordability is increasing or decreasing.

2.4 Forms of Housing Finance

There are two main forms of financing for housing. These are debt finance and equity finance.

2.4.1 Debt Finance

Debt finance can be classified into short-term and long- term finance. Debt finance from micro-finance institutions are usually short-term construction loans with high interest rates and are less appealing for housing acquisition and construction (Nubi, 2005). The most popular funding instrument for housing is the long term loan. Here, a specified maturity date sets the time for repayment of the loan amount and interest. Term loans vary from short- term (bridging finance, working capital, trade finance) through the medium term (two to five years for working capital) to long-term (project finance, capital expenditure) which might have a tenure of between 10 and 30 years (Heffernon, 2003 in Akinwunmi 2009). Lending for commercial purposes is short-tenured while the typical tenure of mortgage loans varies between 10 years to as long as 30 years.

2.4.2 Equity Finance

Equity finance consists of all monies pulled together from friends, relatives or business entities who are interested in maintaining interest in the house purchased with the money raised. The most common equity-financed model for housing is the Real Estate Investment Trust (REITs). The REITs structure is designed to provide a similar structure for investment in real estate as mutual funds

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provide for investment in stocks. The concept of REITs began in the United States in the 1960s but became popular in early 1990s (Seiler & Seiler, 2009). REITs started in Australia as listed property Trusts (LPTs) since 1970 and in January 2007, REITs were introduced in the United Kingdom with Germany and Italy also introducing REITs in 2007.

2.5 Sources of Housing Finance for Lenders

The dominant source of funding for housing (mortgage) finance in both the developed and developing countries is the customer savings deposits. This funding mechanism, however, has the short-coming in the sense that customer deposits being short- term liabilities can be withdrawn at any time, and, are therefore not appropriate funding source for long-term illiquid assets, like mortgages. According to the commercial bank loan theory, banks should not grant long-term loans such as housing/ real estate loans or loan for financing purchase of plant and machinery because they are considered too illiquid. Shin (2009) has observed that within a financial system where short-term liabilities are being used to acquire long-term illiquid assets, any disturbance in the leverage level (ratio of total assets to equity) has to show up somewhere within the financial system. Given that short-term liabilities can be withdrawn at any point in time, financial institutions relying on short-term liabilities to fund long term illiquid assets are likely to face a liquidity crisis (Shin, 2009).

However, despite the short-coming in utilizing deposits liabilities to fund long term mortgage loans, Cho (2007) has observed that a large percentage of financial institutions in developing countries are still relying on short-term deposits to fund long-term mortgage assets. There is, therefore, the need for financial institutions and banks in developing countries to pursue alternative sources of funding long-term illiquid assets like mortgages. Secondary mortgage markets offer an important alternative source of long term funding and have largely been utilized in the developed countries as a source of funding for mortgages. Secondary lenders source long-term funds from the international investment markets and also from local institutional investors which they lend to commercial banks who then lend to individual borrowers at competitive interest rates. Secondary lenders also source long term funds from the capital markets. Specifically, secondary lending institutions buy the mortgage assets of loan originating banks and issues securities in the capital markets which are backed or secured by those mortgages in what is referred to as mortgage backed securities (MBS). Mortgage backed securities (MBS) are investments similar to stocks, bonds or mutual funds, whose value is secured or backed by the value of an underlying bundle of mortgages.

With a well functioning secondary mortgage market, commercial banks do not have to hold mortgages until maturity since they can sell them to the secondary lending institutions and this effectively enhances the liquidity of the loan originating banks thus enabling them to lend to many borrowers at affordable interest rates (Ergungor, 2008). There is, however, no efficient secondary mortgage market in developing countries and this puts enormous pressure on housing finance institutions and banks to carry mortgage loans to maturity and this limits the ability of the banks to originate more loans and at affordable interest rates. Besides customer deposits and securitization, there are other innovative ways of mobilizing long term funds in order to improve the supply of housing finance in developing countries. These innovative finance products include; Issuance of Diaspora Bonds, Migrant Remittances, Pension Funds and Bonds, Mortgage Liquidity Facility (MLF) and Insurance Life-funds. These are briefly discussed below:

2.5.1 Issuance of Diaspora Bonds

Diaspora Bond is a debt instrument issued by a country or a private corporation to raise financing from its citizens in a foreign country. Several countries have used this method to raise long-term funds for example, India and Israel raised US$11 million and US$25 million, respectively from diaspora bonds (Ratha et al. 2008). In 2006, the South African government issued a reconciliation and development bond targeting their citizens abroad. Ghana sold a golden jubilee savings bond to Ghanaians in Europe and the United States and Kenya launched its form of Diaspora bond in 2008. Diaspora bonds have that selling point of the desire by the residents abroad of the need to contribute to the development of their home country. It is an alternative to investing directly in their countries of origin. However, despite the potential market for Diaspora bonds, some of the countries in the developing world are still struggling with weak and non-transparent legal systems for contract enforcement and lack of effective regulations on their financial intermediations (Akinwunmi, 2009)

2.5.2 Migrant Remittances

Remittances are defined as the sum of workers' remittances, compensation of employees and migrant transfer (World Bank, 2007). Remittances are considered as a stable source of external finances that can be effectively utilized for development purposes, one of which is housing finance that requires long-term funding. Remittances to developing countries have increased on average by 16% in annual terms since 2000 (Gupta et al. 2009). As at 2020, the total remittances to Sub-Saharan Africa countries stood at US$19 billion having grown from US$ 8 billion in 2004. Remittances to developing countries increased by 12.5% in 2011 to US$ 355 billion from US$ dollar 316 billion in 2010 (CBK, 2013).

2.5.3 Bonds and Pension Funds

Many countries in developing world have a relatively advanced bond markets. In South Africa and Nigeria, for example, there is a well developed market for government

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securities and corporate bonds have seen significant growth in recent years (Blommestein & Horman, 2017). There is also increasing utilization of pension funds to finance long-term developments like housing. Most developing countries including Zimbabwe have enacted legislation to allow use of pension funds to finance mortgages.

2.5.4 Mortgage Liquidity Facility

A mortgage liquidity facility (MLF) is a finance institution that re-finances the mortgage portfolio of primary lenders. A mortgage liquidity facility improves the liquidity of participating banks and enables them to lend to many borrowers and at competitive interest rates. Many countries in the developing world have already set up MLF. A good example is the Tanzania Mortgage Re-Finance Company (TMRC) that was established in 2010. This World Bank supported MLF had financed 636 mortgages in Tanzania by October 2012 (CAHF, 2013). Egypt's mortgage liquidity facility launched in 2006 increased the total mortgages to 29,631 by 2011. In Togo, a regional mortgage liquidity facility- the *Caisse Regional de Refinancement HypotheCaire*, was created in 2012 to promote easy access to long-term financing for commercial banks to enable them to finance housing loans. The Nigeria government through the World Bank developed a mortgage liquidity facility which increased mortgages to 200,000 by 2018 (CAHF, 2013).

2.5.5 Insurance Life -Funds

Life funds of insurance companies are long- term savings in form of annuities or endowment policies, which can only mature at the occurrence of certain events, which might be at death, accident, retirement or at maturity. Life funds are not only long-term savings but relatively cheaper than deposits (Pilbeam, 2005). Therefore Insurance companies have funds appropriate for financing housing construction and other long-term investments. However, as Anderson et al. (2009) has aptly observed, insurance companies are traditionally the most conservative lender to housing and real estate. In Zimbabwe, lending by the insurance companies is regulated by the Insurance Council of Zimbabwe Act which limits the amount of assets of insurance companies that can be lend for housing.

2.6 Special Characteristics of Housing

Housing has some special characteristics that distinguish it from other products, and which tend to impair the efficiency of the price mechanism and prevent optimal resource allocation through the market system. These characteristics make the housing market imperfect and hamper its smooth operation and efficiency in delivery of adequate and affordable housing.

The imperfections contribute to the volatility of house prices sometimes pushing them beyond the reach of segments of population with modest means. The role of government is, therefore, to try to correct the imperfections so that housing as a product can be accessible and affordable by all individuals and groups in society. The characteristics of housing which necessitates the need for government (State) intervention are as follows:

2.6.1 Heterogeneity or Diversity

Housing as a product is not standardized. No two houses are exactly the same. They always defer in certain aspects, for example, size, design, repair conditions, amenities and tenure system. Even if two houses are the same in all aspects they will always differ in location. This heterogeneity or non-standardization of the housing product necessitates the development of a range of several and diverse housing sub-markets. Therefore, contrary to many consumption goods, there is no homogenous housing market and this makes the dissemination of market information to the market participants' very difficult leading to serious distortions in house prices sometimes making them unaffordable by a majority of the participants in the market.

2.6.2 Inelasticity of Supply

A fundamental economic feature of housing is the difficulty of varying its supply. The physical overall supply of land is virtually fixed and the mix of various land uses is difficult to alter because of planning controls. Due to the time taken to obtain planning permission, organize development finance, construct buildings and arrange disposals, the housing industry is slow to respond to an increase in demand. Conversely, it is difficult for supply to react to a reduction in demand. It is not always viable or practicable to demolish or change buildings to meet such a reduction in demand. These lack of responsiveness (or inelasticity of supply) in the housing industry leaves it abnormally vulnerable to economic booms and slumps. When the market is already booming, it is too late for developers to respond, by the time developers do so, the boom may be over. An oversupply at this stage will actually worsen a slump. In the period before developers effectively responds to demand, house prices are likely to be abnormally high.

2.6.3 Fixity of Location

The nature of housing is such that each house occupies a fixed location and is localized to a particular neighbourhood. This can sometimes mean that the number of buyers or sellers is so restricted that monopolistic conditions prevail (Syagga & Aligula, 1999). Monopoly has the adverse effect of sometimes keeping prices of products very high. But even though the housing market may be local, as for instance, in high, middle or low income neighbourhoods, its area may extend beyond wide limits. This in essence makes it difficult to estimate the number of potential buyers and sellers since those in higher income groups do trade in lower income markets. In such situations, full information necessary for a competitive market is often absent.

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2.6.4 High Transaction Costs

Consuming housing services involves relatively high transaction cost relative to other consumption goods. For instance, buying or selling housing often involves such costs as advertising costs, agent's commission, legal fees and taxes such as stamp duty. Reconstruction or modification of existing housing especially in urban areas attracts additional approval costs and fees. These incidental costs on housing transactions often discourage mobility and tends to slow down the response in market conditions.

2.6.5 High Purchase Cost

Housing, as a product, is very expensive often much more expensive than other consumer goods. In most cases, housing cannot be purchased outright from household income or savings given the often high cost involved. The cost of housing is the biggest item in most family's budgets (Smith et al. 1998 and Stone, 1993). Hence, financing for housing is often done through different arrangements from different sources such as outright purchase or mortgage with money borrowed from banks or other finance sources. Thus, the delivery of housing services is closely tied to the availability and supply of adequate finance in the finance market. As a result, changes in the finance market often have dramatic impact on the housing market.

Other distinctive features of housing make its acquisition a unique experience for any household. Being larger, durable and tied to location, housing is often purchased as a complete dwelling unit not as a shopping basket of separately selected items (rooms, facilities, amenities, and location) in the way that food and clothing are purchased. Unlike food, it is not purchased a new on a regular and frequent basis. Once a household occupies a particular dwelling, it is hard to alter the amount and type of housing services consumed (Stone, 1993). Due to its bulkiness, its immobility and its attachment to land, when people obtain housing they are not just purchasing the services of the dwelling but the advantages and disadvantages of the location, physical characteristics, neighbourhood, accessibility and services, among other attributes of housing.

These characteristics of housing make it a unique complex product and process, inherently susceptible to externalities and other attributes that lead to market imperfections more than any consumption good. As a result, the housing sector, especially in developing countries is marked by pronounced market failures, which justify government (state) intervention as argued by the economic regulation theory and distributive justice theory. As stated earlier, State intervention in the market is needed to offer market stability and ameliorate the adverse impacts of inadequate and unaffordable housing on households and by extension the larger society.

3. RESEARCH METHODOLOGY

The study used a mixed methodology approach. A case study design of the Homelink Housing Scheme in Bindura urban was used. The data was collected using key informant interviews, survey and documentary search. The key informants were drawn from the Homelink Housing Scheme and the Reserve Bank of Zimbabwe (RBZ) while the survey participants were beneficiaries of the Homelink mortgage scheme. The information collected from research participants included demographic characteristics such as age, sex, marital status, level of education, job status, and household income. Information also included household's mortgage loans such as the year of origination, loan amount, loan term, loan to value ration, interest on loan, among other relevant information. Purposive sampling was used to identify the study participants. A total of 30 beneficiaries of the mortgage scheme were selected for the study. Data was analysed using the Statistical Package for Social Sciences (SPSS) and thematic analysis.

4. DISCUSSION OF FINDINGS

4.1 Demographic Characteristics of Participants

(a) The findings of the study indicated that the majority of participants 70% were male while 30% were female. Female householders in urban areas are at a disadvantage due to the lack of adequate resources and services in urban areas and so, have limited means to meet their housing needs (Pruitt, 2007).

(b) When asked about age the highest number of participants 50% were in the age category 50-60 years followed by 30% in the age category of 40 to 49 years and 20% were in the age range of 30 to 39 years and no one was below 29 years of age.

(c) About 75% of the research participants were married while 20% were either widowed or divorced and only 5% were single. Thus, single women households in urban areas in Zimbabwe are prone to housing challenges. Equally important, studies reveal that single women households in urban areas are vulnerable to difficult living conditions (Laux & Cook, 1994).

(d) The income distribution of the participants showed that the majority of the participants 60% were earning above $500 and above while 40% were earning below $500.

Table 1
Factors Affecting Housing Affordability

Factor	Frequency (%)
Loan amount	95
Interest on loan	94
Inflation rate	93
Loss of regular employment	94
The cost of construction	92

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The research participants were asked to rank five most important factors they considered when seeking for a housing mortgage. These factors are discussed below.

In this study, housing affordability was measured in terms of the fact that a household should not spend more than 30 percent of income on housing costs. This is also regarded as the housing cost burden (McConnell, 2013). Housing affordability was also regarded as housing cost burden, which was the percent of income spent on housing. It was an ordered variable and was calculated by dividing monthly housing costs/expenses by the total monthly household income.

4.2 Loan Amount

When asked to rank the factors they considered most important on housing affordability, the majority of participants ranked loan amount the highest with 95%. This factor was defined as the amount of mortgage loan that the household is awarded by the bank or financial institution. The majority of women 75% indicated that obtaining a loan was the biggest challenge given that their salaries were very low and that sometimes their husbands were not willing to support them through provision of collateral security. A high number of participants 58% indicated that their salaries were very low such that the loan amounts they received were not adequate enough to cater for other family expenses.

A Homelink employee indicated that:

> A higher loan amount translates to high monthly loan repayments and vice versa. The amount of loan borrowed reflects the loan -to- value (LTV) ratio which is the proportion of the value of the property given as loan. A higher loan- to-value ratio means a higher loan amount which has the effect of increasing the monthly mortgage repayments and increases the probability of the borrower encountering repayment difficulties.

Some factors affecting housing demand are loan related. These factors influence demand for residential housing because they influence the demand for mortgages. The factors include the duration (term) of mortgage loans, loan amount and deposit required by banks, type of mortgage instrument in use and the mode of loan repayment, as well as the amount of insurance premiums for mortgage protection. Such loan related factors affect the demand for housing and therefore the price of housing. The factor ‘type of mortgage instrument’ was also rated highly by the respondents. The impact of mortgage interest rate on mortgage affordability depends on the type of mortgage instrument in use. There are basically two types of mortgage instruments available in the Kenyan mortgage market, that is, Fixed Rate Mortgage (FRM) and Adjustable Rate Mortgage (ARM). With a fixed rate mortgage, monthly loan repayments remain constant throughout the life of the loan, while for an adjustable rate mortgage, changes in interest rate are normally shifted to the borrower. An increase in the interest of an ARM would, therefore, lead to an increase in monthly loan repayment for households, leading to a higher risk of mortgage default. This result is consistent with past research concerning housing challenges faced by women (Skobba, 2016).

A Reserve Bank employee mentioned that:

> In Zimbabwe, Adjustable Rate Mortgages (ARM) are more common with banks than Fixed Rate Mortgages (FRM) because of the desire of the banks to shift the risk of interest rate variations to the borrowers which in most cases end up hurting the affordability of the households.

The level of interest rates also has direct impact on demand because it directly affects access to mortgage credit. Gyntelberg et al. (2007) have argued that if lower interest rates are perceived to be permanent, households can afford to borrow more, which tend to push up house prices. High interest rates on the other hand will dampen house demand resulting to reduced house prices. Interest rates in the economy are affected by such factors as the availability of funds for lending and general inflation rate which is a risk to be compensated by high interest rates. Increased rates of inflation are, therefore, likely to increase the rate of interest hence the cost of borrowing.

4.3 Interest on Loans

The second important factor according to the participants was interest on loan (94%). This is the amount of interest charged by the banks and financial institutions. Interest rate affects mortgage affordability directly because it determines the borrower’s monthly repayment burden. The amount and volatility of mortgage interest rates affects the household’s income and this may result in either temporary or permanent disruption in monthly loan affordability especially if family income remains constant. The participants mentioned that the amount of interest charged on loans was too high given the prevailing economic environment where inflation was hovering around 156%. The majority of the participants (58%) indicated that they were struggling to repay the loans they had borrowed from the banks as the amount was continuously adjusted in line with inflationary trends.

An employee from Homelink indicated that:

> The rates of mortgage interest in Zimbabwe are very high in Zimbabwe due to the hyperinflationary environment. The high mortgage interest rate regime prevailing in the country over the past decade could, therefore, be the reason that prompted the participants to rate this factor very highly in influencing their affordability.

4.4 Inflation Rate

The rate of inflation was ranked the third most important factor affecting affordability by the research participants. Inflation is a macro-economic factor which impacts on households’ purchasing power by eroding the real value of money. As such, the impact of inflation is largely felt in the consumption of basic commodities like food, clothing and housing. In the building construction industry,

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the impact of inflation is felt on the prices of building materials, the cost of labour and the cost of mortgage finance. A high rate of inflation is likely to increase house prices and interest rates charged by banks and financial institutions thereby diminishing the affordability of households. For example Zimbabwe's inflation rate in January 2021 stood at 36.3% and decreased to 106.60% as of June (Reserve Bank of Zimbabwe, 2021). The financial institutions usually respond to the volatility of inflation rate as it contributed to changes in mortgage interest rates.

The key informant from Homelink was of the view that:

> The demand for housing is a function of several macro-economic factors that directly impact on people's incomes and ability to pay. The macro-economic factors are usually regarded as important indicators of economic performance of the country and a measure of the wealth/living standards of the people. The factors include inflation rate, level of employment/unemployment, interest rate, exchange rate and real gross domestic product (GDP).

According to Stephens (2003), the macro-economic variables reflect the strength and stability of the economy. Increasing real GDP for instance, signifies a growing economy, while falling GDP reflects poor economic performance. Samuelson & Nodhaus (2001) have noted that growth in real GDP is usually associated with rising real incomes and living standards of the general populace.

4.5 Loss of Regular Employment

The study participants also ranked loss of regular employment by the mortgage borrower as very important. This is closely linked to the macro-economic environment in Zimbabwe which is very unstable. In Zimbabwe most companies have been downsizing and this has affected the borrower's ability to repay the mortgage. Currently Zimbabwe's unemployment rate stands at 85%. The majority of women (68%) indicated they were relying on the support of their husbands to repay their loans but unfortunately some of them had lost their employment after they had borrowed the loans which made it very difficult to repay.

A key participant from Homelink mentioned that:

> We have had a high number of mortgage defaulters after some of them had their employment contracts terminated due to various reasons. This has made it very difficult as a housing scheme to recover some of the outstanding amounts.

4.6 The Cost of Construction

The cost of construction, land value and location of property were ranked fifth with 92%. This factor has a direct influence on the price of a house. A high cost of construction, high land value and superior location of a property translates into high prices that properties will be sold in the open market.

A Reserve Bank of Zimbabwe participant mentioned that:

> High property prices will definitely translate into high mortgage repayments for households and will affect affordability especially at the initial stages of accessing the loan and also during the repayment of the loan. The cost of construction is affected by such factors as the cost or price of building materials, cost of labour, professional design fees and other incidental expenses incurred during the construction of a house. The cost of building materials is very high in Zimbabwe.

5. CONCLUSION

From the study it can be concluded that five factors are very important when considering the cost of housing affordability in Zimbabwe. These factors are loan repayment, interest on loan, inflation rate, loss of regular employment, and cost of construction. The significant factors that influence affordability have been identified and ranked with respect to their contribution to housing affordability. The results suggest that in order to address the pressing affordability challenges in the home ownership mortgage housing sector in Zimbabwe, greater emphasis on policy development should be directed towards these five key factors. From the literature review and the results of all the analyses performed in this study, it is further concluded that housing affordability is influenced by clusters of factors related to the households' social-economical characteristics, the loan characteristics, property attributes, and macro-economic factors. Therefore, policy measures to improve affordability in the mortgage housing sector are those that will reduce or stabilize mortgage interest rates, reduce the price of housing, and improve households' income.

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