Affordable housing access for Kenya's formal workforce: What pension data reveals and what can work

fsd Kenya CAHF zamara Powering Prosperity

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ACRONYMS AND ABBREVIATIONS

AHP (Kenya) – Affordable Housing Programme

CHQI (Kenya) – Consolidated Housing Quality Index

FSD Kenya – Financial Sector Deepening Kenya

KMRC (Kenya) – Kenya Mortgage Refinance Company

KEPFIC (Kenya) – Kenya Pension Fund Investment Consortium

KNBS (Kenya) – Kenya National Bureau of Statistics

NSSF (Kenya) – National Social Security Fund

RBA (Kenya) – Retirement Benefits Authority

SACCOs (Kenya) – Savings and Credit Co-operative Societies

CAHF (Africa) – Centre for Affordable Housing Finance in Africa

DFI – Development Finance Institution

SPV – Special Purpose Vehicle

FSCA (South Africa) – Financial Sector Conduct Authority

PIC (South Africa) – Public Investment Corporation

GIPF (Namibia) – Government Institutions Pension Fund

PBHLS (Namibia) – Pension-Backed Home Loan Scheme

NPRA (Ghana) – National Pensions Regulatory Authority

SSNIT (Ghana) – Social Security and National Insurance Trust

CPF (Singapore) – Central Provident Fund

HDB (Singapore) – Housing & Development Board

EPF (Malaysia) – Employees Provident Fund

FHSA (Canada) – First Home Savings Account

HBP (Canada) – Home Buyers' Plan

RRSP (Canada) – Registered Retirement Savings Plan

DSTI – Debt Service-to-Income Ratio

DSR – Debt Service Ratio

REITs – Real Estate Investment Trusts

PBHL – Pension-Backed Home Loan

May 2026

About Zamara

Zamara Group Limited is a leading Kenyan headquartered financial services firm offering pensions administration, actuarial consulting, insurance broking and wealth management services across Africa and the Middle East. Founded in 1994, the company has grown from a specialised actuarial practice into a diversified provider with operations in multiple countries.

Zamara is distinguished by its customer centric approach, digital innovation (such as its -eZamara portal) and recognised service excellence evidenced- by awards for reliability and brokerage leadership. With a robust footprint and a commitment to tailored solutions, Zamara supports both individuals and corporates in navigating financial complexities and building sustainable futures.

About FSD Kenya

Financial Sector Deepening Kenya (FSD Kenya) is an independent trust dedicated to the achievement of a financial system that delivers value for a green and inclusive digital economy while improving financial health and capability for women and micro and small enterprises (MSEs).

FSD Kenya works closely with the public sector, the financial services industry, and other partners to develop financial solutions that better address the real-world challenges that low-income households, MSEs, and underserved groups such as women and youth face.

Current FSD Kenya funders are UK International Development, the Swedish International Development Cooperation Agency (Sida), The International Fund for Agricultural Development (IFAD), and the Bill & Melinda Gates Foundation.

About CAHF

The Centre for Affordable Housing Finance in Africa (CAHF) is a leading independent thinktank and -market systems- facilitator dedicated to improving access to affordable housing finance across Africa.

Established in 2014 and headquartered in South Africa, CAHF works continent-wide to generate market intelligence, support innovation in housing finance models, and build partnerships between public, private and development sectors.

Through its annual *Housing Finance in Africa Yearbook*, cost-benchmarking tools, and data sharing- initiatives, CAHF supports policymakers, developers, investors and practitioners in understanding and acting on the affordability challenge. In Kenya, CAHF collaborates with local institutions to map market constraints, cost drivers and financing gaps helping to shape policy, unlock investment and scale affordable housing delivery in support of inclusive, resilient urban growth.

1. EXECUTIVE SUMMARY

Kenya's affordable housing ambition is supported by strong policy momentum, a growing formal workforce, and an expanding pool of long-term domestic savings through pension schemes. Yet despite this enabling environment, homeownership remains out of reach for many formally employed households. This report examines the structural affordability gap that persists even among pension contributors and evaluates how Kenya's pension system can support housing access in a manner that safeguards retirement security and remains consistent with existing policy and regulatory frameworks.

The report finds that the core constraint is not housing demand, nor the availability of savings capital, but the mismatch between housing prices, financing structures, and real household income patterns. Analysis of affordability conditions shows that effective affordability is concentrated within a narrow price band, typically between KShs 1.7 million and KShs 3.4 million for many middle-income households, while much of formal housing supply remains priced above this range. Where supply does exist within this price band, it is largely limited to very small bedsits and studio units, which do not fit the actual household needs of most owner-occupiers, particularly families requiring multi-room housing and adequate living **space.** High deposit requirements, elevated interest rates, and rigid repayment terms further limit the ability of households to translate housing aspirations into bankable housing finance demand.

As a result, rental housing continues to be more affordable and more responsive to household income realities**.** Rental payments typically require significantly lower upfront costs than homeownership, involve shorter-term commitments, and provide greater flexibility in managing income volatility, employment mobility, and changing household size. For many households, renting therefore remains the economically rational choice, reinforcing a structural disconnect between housing supply, financing mechanisms, and effective owner-occupier demand despite sustained demand for housing in general.

Zamara pension member data reinforces this affordability challenge. While most members may be eligible to apply for housing loans based on formal employment status, affordability remains constrained by income levels and competing household priorities. A significant majority of members earn below KShs 150,000 per month, and many carry existing debt obligations that reduce their available debt-service capacity for housing finance. This affordability compression is reflected in low mortgage penetration even among formally employed contributors, and a strong preference for alternative pathways to homeownership. Rental housing therefore remains the primary tenure choice for many members, while alternative pathways such as incremental construction, cooperative housing arrangements, employer-supported schemes, and pension-linked financing provide more viable routes to ownership that better align with income progression and long-term savings behaviour.

The report further confirms that incremental housing is not a secondary option, but the dominant and rational pathway to homeownership for most households. Many households prefer to build progressively, aligning housing investment decisions to irregular cash flows, lifecycle needs, and risk management concerns. Survey evidence highlights demand for smaller, staged financing tranches linked to construction milestones rather than large, one-time mortgage products. This behavioural reality creates a clear product design gap in Kenya's housing finance market, where traditional mortgages are structured around fully completed units and fixed repayment schedules.

Kenya's pension system has substantial capacity, with total assets approaching KShs 2.5 trillion, and a regulatory framework that permits both demand-side and supply-side participation in housing. On the demand side, the *Retirement Benefits (Mortgage Loans) Regulations*, published in the Kenya Gazette on 12 June 2009 and commenced on the same date enable pension-backed loan guarantees through assignment of accrued benefits as collateral. On the supply side, pension schemes are permitted to invest in property, REITs, and infrastructure-related assets within prescribed investment limits. However, utilisation remains minimal due to limited awareness, operational complexity, lender risk appetite, and most critically, the underlying affordability mismatch between available housing stock and member income bands.

Global experience demonstrates that pension-linked housing mechanisms can be effective, but only when system design is deliberate and aligned to household affordability and market supply. Successful models show that pensions are most effective when used to reduce lender risk and unlock financing, rather than substituting household income or enabling premature depletion of retirement savings. They also demonstrate that housing

supply must be aligned to real affordability bands, and that financing products must reflect income realities, including flexible structures that support incremental construction.

The report concludes that pensions cannot fix housing affordability on their own and should not be used to compensate for structurally unaffordable housing markets. Instead, pensions can play a catalytic role by:

(i) enabling credit enhancement structures that reduce borrowing costs,
(ii) supporting long-term lending through institutions such as KMRC,
(iii) financing affordable housing supply and enabling infrastructure through investable vehicles, and
(iv) Strengthening policy alignment through improved data systems, credible housing project pipelines, and stronger institutional coordination remains essential. However, given practical constraints, Kenya could adopt a more phased and structured approach similar to Singapore and Malaysia, where tightly regulated, conditional pension withdrawals are allowed specifically for primary home ownership under strict safeguards. Such a model would prioritise owner-occupation, limit exposure to retirement risk, and ensure repayment mechanisms are clear and enforceable.

Key challenges must also be acknowledged: rising household debt burdens, the risk of pension depletion before retirement, limited mortgage market depth, informal employment constraints, and weak credit underwriting standards. Without careful design, pension-backed housing access could unintentionally increase over-indebtedness and undermine long-term retirement security.

With strong safeguards, clear eligibility criteria, and disciplined risk management, Kenya can better align housing access with retirement protection so that home ownership supports, rather than compromises, financial security in old age.

2. INTRODUCTION

Zamara Group Limited, in partnership with the Centre for Affordable Housing Finance in Africa (CAHF) and Financial Sector Deepening (FSD) Kenya, undertook this study to address a critical and persistent challenge in Kenya's housing market: why formally employed households with stable incomes and consistent pension contributions remain largely excluded from homeownership.

Conventional housing policy and finance narratives often assume that formal employment equates to housing affordability. However, emerging evidence suggests that this assumption no longer holds. Despite regular incomes and disciplined long-term saving through pension schemes, many formally employed Kenyans are unable to access housing finance that aligns with their income realities, savings patterns, existing debt obligations, and housing pathways. High levels of consumer and short-term credit further compress disposable income and debt-service capacity, weakening the link between formal financial inclusion and effective housing finance access. This disconnect has resulted in a growing cohort of households that are financially included in theory but effectively excluded from homeownership in practice.

This study explores whether Kenya's pension system, by virtue of its scale, structure, and long-term orientation, can play a complementary role in addressing this gap. Specifically, it examines whether pension savings can support housing affordability in ways that expand access without compromising retirement security, rather than attempting to replace traditional housing finance mechanisms.

The analysis draws on demand-side evidence from nearly 150,000 active pension scheme members under Zamara's administration. This dataset enables a detailed understanding of income stability, savings behaviour, housing aspirations, and affordability constraints among formally employed households, an often-overlooked segment that sits between social housing eligibility and conventional mortgage affordability.

The study is anchored in the recognition that affordability, rather than willingness to save, is the binding constraint for most households. While pension participation demonstrates strong financial discipline, existing housing finance products remain poorly aligned with household income levels, prevailing debt obligations, and the incremental ways in which most Kenyans acquire or build homes over time. As a result, regulatory provisions that permit pension-linked housing finance have not translated into meaningful uptake or impact at scale

Addressing this gap requires more than product-level adjustments; it calls for ecosystem-level reform. On the supply side, the persistent mismatch between income bands and available housing stock reflects structural constraints — high land costs in urban areas, infrastructure deficits that inflate development costs, lengthy approval processes, taxation layers, and limited access to patient development capital. Without coordinated interventions to reduce the cost of serviced land, streamline approvals, incentivize affordable housing construction, and deepen capital markets for long-term housing finance, affordability will remain elusive regardless of pension participation levels.

The Kenya Mortgage Refinance Company (KMRC) product design further illustrates the structural tension. While KMRC has expanded access to longer-tenor funding for primary lenders, its Build Product caps the maximum loan at KShs 10.5 million and the maximum property value (inclusive of the loan) at KShs 15 million. In practice, these thresholds exclude a significant segment of formally employed households in peri-urban and urban areas where land values alone often approach or exceed these limits. For many middle-income earners, especially those who already own land acquired years earlier at appreciating values, the combined land and construction cost surpasses the eligibility ceiling effectively disqualifying them despite stable incomes and pension savings.

Moreover, housing acquisition in Kenya is rarely a single-transaction mortgage event. It is typically incremental land purchase first, followed by phased construction financed through savings, SACCO loans, informal credit, or employer advances. A product structure anchored on a capped, fully underwritten mortgage model does not fully align with this pathway. The result is a paradox: households that are financially disciplined, pension-active, and formally employed remain constrained not by willingness or even by total lifetime earning potential, but by rigid affordability metrics and product thresholds that fail to reflect market land values and incremental building realities.

Closing this gap will require coordinated policy alignment across regulators, lenders, developers, pension trustees, and infrastructure agencies — including re-examining loan caps in relation to market dynamics, incentivizing lower-cost housing typologies, promoting serviced land development, expanding blended finance models, and designing phased or hybrid mortgage products that better reflect how Kenyans actually build.

Without such ecosystem-level recalibration, pension-linked housing finance will remain technically feasible but practically inaccessible for the majority it is intended to serve.

The central question addressed by this report is therefore not whether pensions should replace existing housing finance models, but whether they can be deliberately integrated into Kenya's housing ecosystem to expand access, improve affordability, and preserve long-term retirement outcomes. International experience indicates that such alignment is achievable where pension systems, housing policy, and financial product design are coordinated around verified household realities.

To answer this question, the study combines pension data analysis, housing affordability modelling, and behavioural insights to identify feasible affordability bands, assess member demand, and explore institutional pathways for scaling pension-backed housing solutions. The findings are intended to inform policymakers, regulators, pension trustees, and financial institutions on how Kenya's pension system can be positioned as an effective component of the national housing response, bridging the gap between long-term savings and long-term shelter.

3. STUDY SCOPE AND OBJECTIVES

3.1. Problem Statement

Kenya's affordable housing challenge persists despite strong household demand, ongoing policy interventions, and rising pools of long-term savings through pension systems. While formal-sector workers contribute consistently to retirement schemes, conventional housing finance products, particularly mortgage loans, remain inaccessible to most households due to deposit requirements, loan pricing, repayment constraints, and the misalignment between housing supply prices and effective household affordability. For many households, high debt-to-income ratios driven by personal loans, SACCO facilities, mobile credit, and other short-term borrowing further compress mortgage eligibility, even where incomes are stable and pension savings are consistent.

Rental housing continues to be more attainable and affordable as a tenure for most households driven by structural differences in supply requirements, financing and affordability. For example, building built for rental by the owner face more regulatory flexibility (less stringent parking requirements, fire and infrastructure standards compared to formally financed for sale developments) and lower financing costs as financed by the owner's equity.

This study examines whether, and how, pension savings and pension capital can play a practical role in expanding access to affordable housing in Kenya without undermining retirement income security.

3.2. Study Objectives

The objectives of the study are to:

1. Quantify housing affordability among formally employed pension members using observed contribution and pension balance data rather than proxy assumptions.

2. Assess feasibility of housing finance options, including long-term mortgages and incremental housing finance pathways, under realistic prudential constraints.

3. Evaluate pension-backed housing lending mechanisms within Kenya's current legal and regulatory framework.

4. Examine the potential role of pension capital on housing supply, including regulated investment vehicles and blended finance structures that align with pension fiduciary requirements.

5. Generate evidence for policy formulation and product development by integrating quantitative affordability modelling with behavioural insights from household survey data.

3.3. Scope and Coverage

The study focuses on formally employed pension members and the affordability dynamics affecting this segment, which constitutes the core base of contributory retirement savings in Kenya. The analysis covers:

- Demand-side affordability and household behaviour, including ability to service housing-related debt and preferences for housing acquisition pathways; and
- Supply-side and market-enabling channels, through which pension capital may support affordable housing delivery indirectly via regulated investment instruments.

The analysis does not extend to informal sector households, where pension participation and income patterns differ significantly, and where housing finance solutions require separate policy and market design considerations.

4. STUDY DATA AND METHODOLOGY

4.1. Analytical Framework

This study applies a mixed-method, evidence-based analytical framework to examine how pension savings can be leveraged to expand access to affordable housing in Kenya. The approach combines quantitative pension member data analysis, household surveys, and policy and market reviews to ensure that findings are grounded in observed behaviour, analytically robust, and relevant for both policy design and financial product development.

Unlike studies that rely on averages or assumed affordability proxies, this research is based on actual pension member data, allowing for a realistic assessment of housing affordability among formally employed Kenyans.

4.2. Data Sources and Coverage

The primary dataset comprises over 150,000 anonymised pension scheme members administered by Zamara Group Limited. The data captured includes:

- Pension contribution histories and accumulated balances, providing insight into long-term savings behaviour.
- Age profiles and employment characteristics, enabling assessment of income stability and retirement horizons; and
- Contribution consistency, as a proxy for financial discipline and capacity to service regular financial obligations.

To contextualise and validate the pension data, the study incorporated secondary data sources, including:

- Kenya National Bureau of Statistics (KNBS) demographic and income distribution data (https://www.knbs.or.ke);
- Central Bank of Kenya (CBK) mortgage market surveys to benchmark prevailing lending conditions (https://www.centralbank.go.ke/mortgages/);
- World Bank housing finance diagnostics (https://www.worldbank.org/en/topic/financialsector/brief/housing-finance); and
- African Development Bank (AfDB) urban development data (https://www.afdb.org/en/topics-and-sectors/sectors/urban-development).

This combination of member-level and national data supports a holistic assessment of both demand-side affordability and the broader housing finance environment.

4.3. Phase 1: Pension Data Analysis and Affordability Modelling

Phase 1 focused on assessing members' capacity to access housing finance under prevailing market conditions. This involved testing existing housing loan structures against observed income levels, pension contribution patterns, and retirement adequacy constraints.

Key elements of the approach included:

- A pre-qualification exercise assessing potential loan eligibility based on income, contribution history, and projected retirement savings;
- Application of a maximum debt-service-to-income (DSTI) ratio of 30%, consistent with prudential lending guidelines and international best practice;
- Use of loan tenors of 20–25 years, reflecting realistic mortgage and long-term housing loan structures in Kenya (CBK, 2024); and
- Modelling of incremental housing pathways, including phased construction and partial land ownership, to reflect prevailing housing acquisition patterns in Kenya.

This phase established the analytical foundation for assessing feasible affordability ranges and identifying structural constraints in existing housing finance products.

4.4. Phase 2: Household Survey and Behavioural Insights

Phase 2 complemented the quantitative analysis with behavioural insights collected through an online survey of pension scheme members. The survey explored homeownership intentions, housing acquisition pathways, financing preferences, and perceived barriers to accessing housing finance.

Survey data were analysed using:

- Descriptive statistics to identify quantitative trends; and
- Thematic analysis to interpret qualitative responses on preferences and constraints.

The integration of survey findings with affordability modelling enabled validation of quantitative results and provided insight into behavioural factors influencing housing decisions.

4.5. Pension-Backed Lending Assessment

The study assessed the operational potential of pension-backed housing finance within Kenya's existing regulatory framework. Under the Retirement Benefits (Mortgage Loans) Regulations, 2009, members are permitted to pledge up to 60% of accrued pension savings as collateral for housing loans without withdrawing funds. In 2020, the act was amended to allow for members to withdraw up to 40% or KShs.7 million from their pension savings for the purpose of housing purchase. This was later repealed by the High Court of Kenya and trustees were kept from honouring any obligations that were entered into pursuant of the nullified law.

Despite this enabling regulation, uptake remains extremely limited. According to the Retirement Benefits Authority, fewer than 0.1% of eligible members have accessed pension-backed housing loans (Business Daily Africa, 2025). The assessment therefore examined institutional, product design, and awareness-related constraints that may explain this gap, while ensuring that all modelling preserved post-retirement income adequacy.

4.6. Pension Capital for Housing Supply

Beyond individual mortgage lending, the study explored indirect channels through which pension funds could support housing supply at scale. These include:

- Real Estate Investment Trusts (REITs) targeting low- and middle-income housing;
- Blended finance structures combining pension capital with development finance to de-risk projects; and
- In Kenya, SACCO- and microfinance-linked incremental housing loans are supported through refinancing from the Kenya Mortgage Refinance Company (KMRC), which provides long-term funding to participating banks such as KCB Bank Kenya, Co-operative Bank of Kenya, Absa Bank Kenya, and NCBA Bank Kenya, as well as SACCOs including Stima Sacco and Mwalimu National Sacco. Despite this growing institutional participation, overall mortgage penetration in Kenya remains low at under 3% of the adult population and approximately 2–3% of GDP, according to the Central Bank of Kenya highlighting that formal housing finance, including incremental construction loans, still represents a small share of total housing demand.

In Kenya, early institutional foundations for this model already exist, but deployment remains modest relative to the size of pension assets in the system. The Kenya Pension Funds Investment Consortium (KEPFIC), established in 2018, was designed to pool retirement scheme capital into alternative investments, including real estate. Through KEPFIC, pension funds have collectively mobilized capital into student accommodation REITs and housing-related bonds, including instruments issued by the Kenya Mortgage Refinance Company (KMRC). While this demonstrates proof of concept, participation represents only a fraction of Kenya's pension schemes, leaving significant untapped potential.

REITs as a Supply-Side Vehicle

REITs provide a mechanism for pension funds to gain exposure to property assets without direct development or operational risk. In Kenya, the most visible institutional example has been student accommodation REITs backed by pension capital. However, REIT structures specifically focused on affordable, or workforce housing remain underdeveloped.

The constraint is not regulatory permission—pension schemes are allowed to invest in property and REITs within defined limits—but rather commercial structuring. Affordable housing projects often generate lower yields compared to commercial real estate, making trustees cautious unless risk is mitigated or returns are enhanced through tax incentives, guarantees, or blended capital structures.

Internationally, countries such as South Africa have successfully mobilized institutional capital into affordable rental housing REITs by aligning long-term rental income streams with pension liability horizons. In Malaysia, the Employees Provident Fund (EPF) has co-invested in mixed-income housing developments through structured vehicles that balance social objectives with stable long-term returns. These examples show that pension capital can participate meaningfully in housing supply when regulatory clarity, fiscal incentives, and risk-sharing frameworks are well aligned.

Blended Finance and Risk Mitigation

Blended finance models are particularly important in contexts where affordability gaps reduce project margins. In Kenya, KMRC represents a partial blended structure: established with World Bank and development partner support, it refinances banks and SACCOs to extend longer-tenor, lower-cost mortgages. KMRC has successfully raised billions of shillings through domestic bond markets, some of which have been taken up by institutional investors, including pension funds.

However, refinancing alone does not address upstream development risk or construction-phase financing gaps. Internationally, blended models often include first-loss guarantees, concessional capital tranches, or interest rate subsidies that crowd in pension capital while protecting downside risk. In Latin America, development banks have successfully structured mortgage-backed securities and housing funds that attract pension investment through partial guarantees and credit enhancement. Similar approaches could be adapted in Kenya to make affordable housing supply vehicles more investable.

SACCOs, Microfinance, and Incremental Housing

At the household level, incremental housing remains the dominant pathway to homeownership. Many Kenyans purchase land first and build progressively over time using savings, SACCO loans, or short-term credit. SACCOs therefore play a critical role in housing finance, particularly for construction loans that fall below traditional mortgage thresholds.

Linking SACCO-originated housing loans to refinancing or guarantee facilities could significantly expand reach. Microfinance banks such as Faulu and others have begun offering tailored housing improvement loans aligned with irregular income flows. Comparable models in India and the Philippines have demonstrated that integrating community finance institutions into national housing refinance frameworks can scale incremental housing finance sustainably.

Structural Constraints and Ecosystem Gaps

Despite these channels, several constraints limit scale:

- Risk aversion among pension trustees, driven by fiduciary obligations and liquidity considerations.
- Limited investable pipeline of well-structured, affordable housing projects;
- Yield-return mismatches, where affordable housing projects generate lower returns than commercial real estate;
- Regulatory and capital structure rigidity, which does not always accommodate phased or mixed-income developments; and
- Land and infrastructure costs, which undermine affordability even before financing is applied.

Lessons from Elsewhere

Global experience shows that pension capital can support affordable housing when three conditions are met:

1. Clear risk-sharing mechanisms (guarantees, blended capital, insurance wraps);
2. Policy incentives and fiscal support (tax benefits, land subsidies, density bonuses); and
3. Institutional-grade investment vehicles with transparent governance and predictable cash flows.

South Africa's affordable rental REITs, Malaysia's EPF-backed housing partnerships, and blended housing funds in Latin America illustrate that pension capital can move beyond passive allocation into active supply-side participation—without compromising fiduciary standards.

Strategic Implication

Kenya's pension system holds significant long-term capital capable of reshaping housing supply. However, unlocking this potential requires ecosystem-level alignment—bringing together regulators, pension trustees, developers, development finance institutions, SACCOs, and capital market actors to structure investable, de-risked, and scalable housing vehicles.

Without such coordination, pension capital will remain technically eligible for housing investment but practically underutilized in addressing the country's affordable housing deficit.

These mechanisms leverage long-term pension assets to stimulate housing delivery while maintaining fiduciary safeguards.

4.7. Sensitivity Testing and Risk Management

To ensure robustness, the analysis incorporated sensitivity testing across key risk variables, including:

- Interest rate fluctuations;
- Income variability and contribution interruptions; and
- Retirement adequacy preservation.

All scenarios maintained capital preservation, fiduciary responsibility, and protection of retirement income. Results indicate that affordability outcomes are most sensitive to interest rate movements, reinforcing the importance of conservative lending thresholds and long-term financing structures.

4.8. Key Assumptions and Limitations

Assumptions underpinning the analysis include:

- Formal employment with relatively stable income streams, consistent with observed contribution histories;
- Continued pension participation at historical or conservative contribution levels;
- Strict preservation of retirement adequacy, with pension usage limited to collateralisation rather than withdrawal;
- A maximum DSTI ratio of 30% and loan tenors of 20–25 years; and
- Incremental housing delivery as the dominant acquisition model.

Limitations include:

- Focus on formally employed pension members, excluding the informal sector;
- Geographic variability in land and construction costs not fully captured;
- Potential divergence between stated survey intentions and actual behaviour; and

- Exposure to future interest rate and construction cost volatility beyond tested scenarios.

These assumptions and limitations define the conditions under which the findings hold and strengthen the transparency and credibility of the study.

4.9. Methodological Implication

Within a conservative and realistic framework, the methodology demonstrates that pension-backed housing finance is analytically sound and operationally viable for formally employed Kenyans. The approach provides a scalable foundation for policy formulation, financial product design, and investment decision-making, while preserving retirement security.

5. KENYA'S HOUSING REALITY: AFFORDABILITY, QUALITY & ACCESS

Kenya's housing challenge extends beyond urban affordability and reflects a broader national reality shaped by population growth, income dynamics, infrastructure gaps, and uneven access to adequate shelter across regions. According to the Kenya National Bureau of Statistics (KNBS) 2023/24 Kenya Housing Survey Basic Report, Kenya's population stands at approximately 51.5 million people, forming an estimated 13.9 million households. Housing pressures are influenced by two parallel forces: rapid urbanisation, which is intensifying demand in major cities and peri-urban corridors; and persistent rural housing deficits, where ownership levels are high, but housing adequacy and service access remain constrained.

5.1. Population Growth and Urbanisation Pressure

Kenya's population has continued to expand steadily since the 2019 Census, increasing by approximately 15% over the period. KNBS projections indicate that the population could reach 70.1 million by 2045, implying a sustained rise in housing demand across both rural and urban areas. Urbanisation is occurring at an even faster pace, with urban populations growing at an estimated 3.7% per year, significantly outpacing national population growth. This trend is generating mounting pressure on urban housing stock, peri-urban expansion zones, and supporting infrastructure systems.

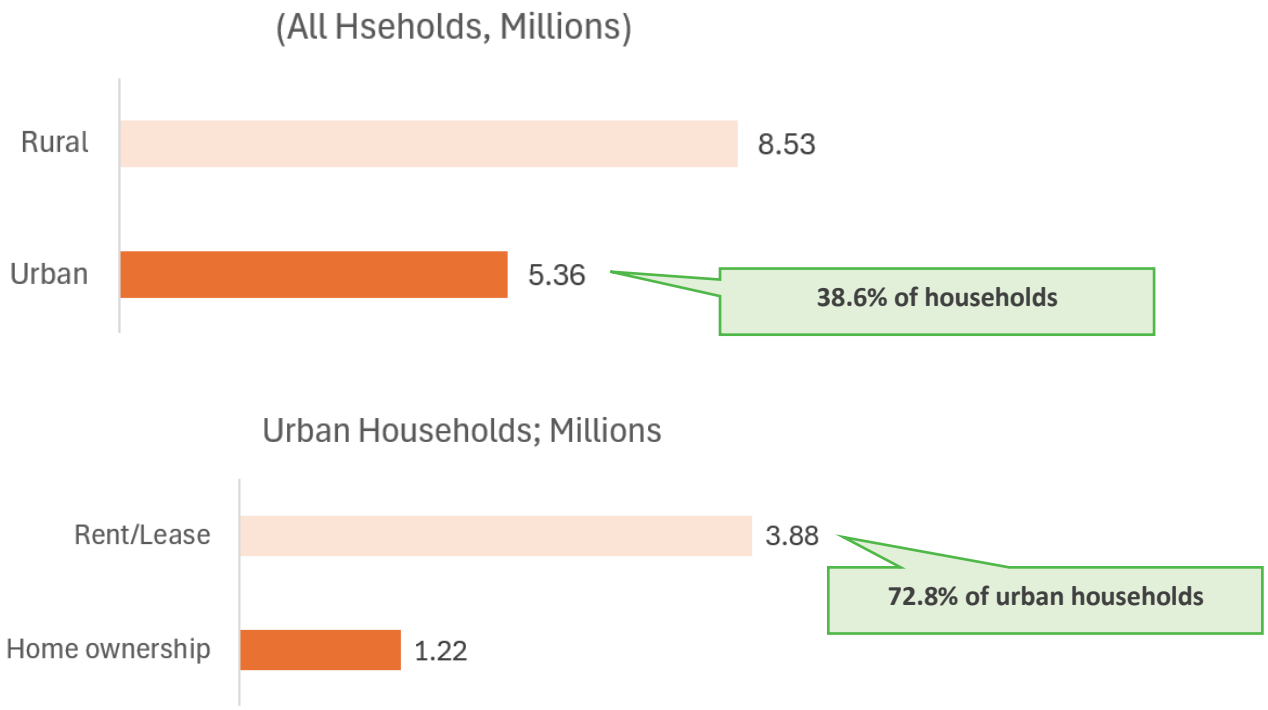


Fig 5.1: Statistics on population growth in both rural and urban areas

Source:2023/2024 Kenya Housing Survey Basic Report, https://www.knbs.or.ke/wp-content/uploads/2025/01/2023-24-Kenya-Housing-Survey-Basic-Report.pdf

As of 2024, approximately 32% of Kenya's population (about 16.4 million people) reside in urban areas, translating into an estimated 5.37 million urban households. Urban growth is concentrated in major metropolitan regions and fast-expanding secondary towns, including Nairobi, Kiambu, Nakuru, and other emerging urban corridors. This expanding population base continues to place upward pressure on rental demand, land values, and the availability of affordable housing units within reasonable commuting distance of employment centres.

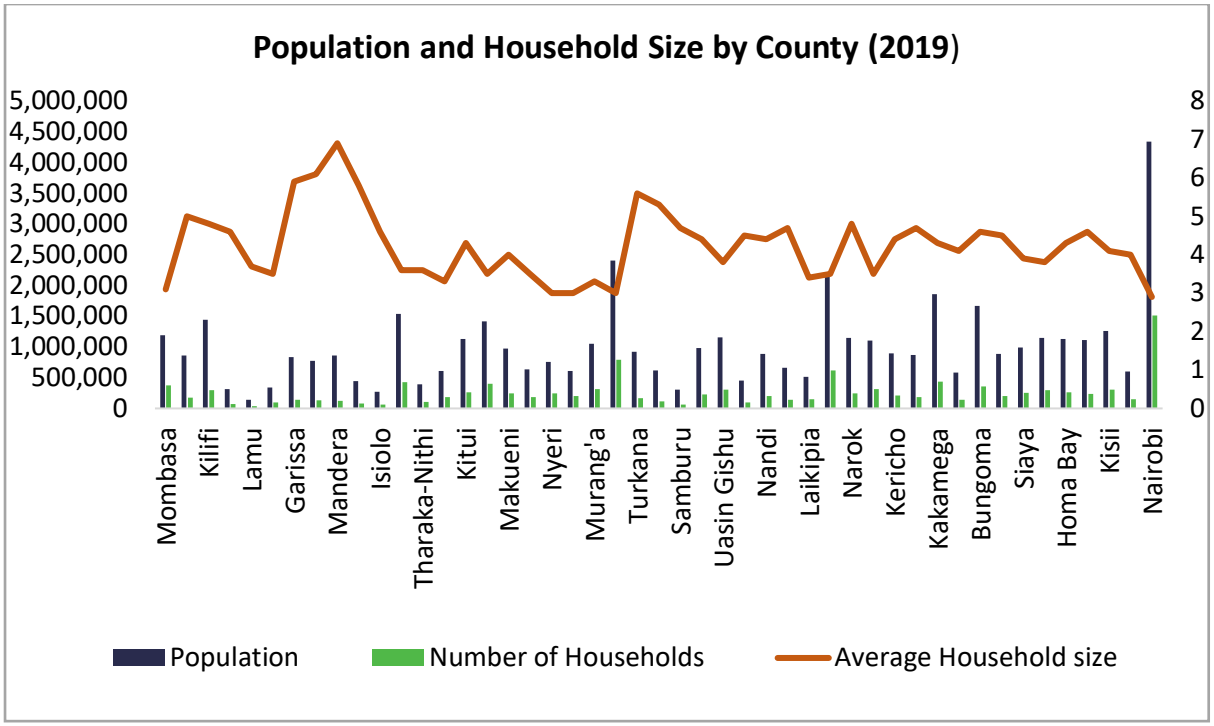


Fig 5.1.2: Population and household size by county as per the last census

Source: 2024 Kenya Population and Housing Census https://www.knbs.or.ke/reports/kenya-census-2019/

In Nairobi and surrounding counties, household formation is increasing rapidly, implying sustained annual demand for additional housing units. Where formal housing supply does not keep pace with new household formation, the gap is typically absorbed through increased rental densification, informal settlement growth, and outward expansion into peri-urban locations often with limited infrastructure provision. This demand–supply imbalance has direct implications for affordability, housing quality, and access to basic services.

5.2. Urban Housing Reality: Rental Dominance and Overcrowding

Urban housing in Kenya is predominantly rental in nature. More than 72% of urban households rent their homes, while only 22.8% are owner-occupiers. A further 4% occupy housing rent-free with the consent of the owner (Kenya National Bureau of Statistics [KNBS], 2019 Kenya Population and Housing Census, Volume IV: Distribution of Population by Socio-Economic Characteristics). These tenure patterns reflect constrained access to formal homeownership pathways in cities, driven by high land and construction costs and limited affordability under prevailing mortgage terms.

Beyond tenure, housing adequacy remains a significant challenge. Across urban dwellings, whether owner-occupied or rented, only 68.1% are considered fit for habitation based on established occupancy standards, while 31.9% of urban households live in overcrowded conditions (KNBS, 2019 Kenya Population and Housing Census, Volume IV: Housing Conditions and Amenities). This indicates that access to shelter does not necessarily translate into access to safe, healthy, or dignified housing.

In many cases, households make trade-offs between space, building quality, and access to basic services to remain near employment centres, transport networks, and social infrastructure such as schools and healthcare. These constraints reinforce the distinction between housing availability and housing adequacy in Kenya's rapidly growing urban areas.

5.3. Rural Housing Reality: Ownership without Adequacy

While urban housing pressures attract the most attention, a substantial share of Kenyan households continues to reside in rural areas, where housing conditions present a different but equally significant challenge. Rural housing is characterised by high levels of owner occupation, supported by customary land tenure arrangements

and intergenerational land inheritance. However, ownership does not necessarily translate into adequate, durable, or resilient housing.

Most rural homes are self-built and developed incrementally, often using locally available or temporary materials, with limited oversight or enforcement of construction standards. Although overcrowding may be less pronounced compared to urban informal settlements, rural housing deficits are more strongly reflected in dwelling quality, durability, and weak access to essential services. Many households lack reliable access to improved water sources, sanitation infrastructure, electricity connectivity, and all-weather roads, limiting overall liveability and reinforcing vulnerability.

Rural housing deficits are closely associated with income instability, poverty, and limited access to formal housing finance mechanisms. Incremental construction enables households to build in line with irregular cash flows; however, it can also result in partially completed or structurally weak dwellings that remain exposed to environmental and climate-related shocks, including flooding and extreme weather conditions.

Overall, rural housing challenges in Kenya are better understood as an adequacy and resilience gap rather than a tenure gap. This distinction is critical for national housing strategy, as it underscores the importance of interventions that strengthen housing standards, service provision, and resilience, alongside access and affordability.

Taken together, Kenya's urban access pressures and rural adequacy gaps translate into a persistent national housing deficit, one defined not only by the number of units missing, but by the shortage of safe, serviced, and liveable homes. The term "rural adequacy gap" in this context draws conceptually from broader housing policy and human settlements literature, particularly frameworks advanced by UN-Habitat and the World Bank, which distinguish between *housing availability* (numerical supply) and *housing adequacy* (quality, safety, space standards, and access to basic services). While urban deficits are often framed in terms of access to ownership or rental affordability, rural housing challenges tend to be characterized less by tenure insecurity and more by deficits in structural quality, overcrowding, sanitation, water access, and durable building materials. The "rural adequacy gap" therefore refers to the shortfall in housing that meets minimum habitability and service standards, even where physical shelter exists shifting the focus from quantity alone to the quality and liveability of housing outcomes.

5.4. A Persistent National Housing Deficit

The combined effects of rapid urban population growth, slow formal housing delivery, and widespread rural housing inadequacy have resulted in a national housing backlog estimated at approximately two million units. This deficit has remained broadly unchanged since 2018, underscoring the structural nature of Kenya's housing challenge. Importantly, the backlog reflects not only a shortfall in the number of housing units, but also a deficit in the availability of decent, serviced, and liveable homes across both urban and rural contexts.

In response, the Government of Kenya has articulated plans to support the delivery of approximately 200,000 housing units annually as part of wider reforms in the housing sector. While this target reflects strong policy ambition, the persistence of unmet demand indicates that the housing gap cannot be addressed through unit delivery alone. Closing the deficit requires a more holistic response, one that addresses affordability constraints, infrastructure provision, land access, housing quality, and sustainable financing mechanisms in parallel.

This distinction between housing quantity and housing adequacy is critical. Without simultaneous attention to affordability and service provision, increased housing supply risks reproducing existing structural gaps that continue to limit access to safe, healthy, and dignified housing for a large share of Kenyan households.

5.5. Housing Adequacy: Structural Quality and the Consolidated Housing Quality Index CHQI

Urban housing in Kenya generally performs better in terms of construction materials relative to the national average. More than three-quarters of urban dwellings use durable materials for key structural components, with approximately 92% having durable floors, 77% having durable walls, and 99% having durable roofing. By comparison, national figures indicate that only 59% of floors and 47% of walls are constructed using durable

materials, although roofing durability remains relatively high at 94%. *(KNBS Kenya Housing Survey Report)* These patterns point to higher construction standards in urban areas and a greater reliance on permanent materials than is typical in rural housing settings.

However, the use of durable materials alone does not guarantee adequate housing conditions. Using the Consolidated Housing Quality Index (CHQI), the Kenya National Bureau of Statistics reports that 78.8% of dwelling units nationally are classified as being of inadequate quality. Even within urban areas, despite stronger structural material indicators, 55.1% of dwellings remain inadequate. This highlights that housing adequacy extends beyond building materials to encompass broader dimensions such as overcrowding, sanitation arrangements, access to basic services, infrastructure connectivity, and exposure to environmental risks.

Quality deficits are most pronounced in informal settlements. The 2023/24 Kenya Housing Survey identifies 392 slums nationwide, with 38% of counties reporting the presence of slums within their jurisdictions. This underscores the persistence of informal and substandard housing as a structural feature of Kenya's urban landscape, even as cities continue to

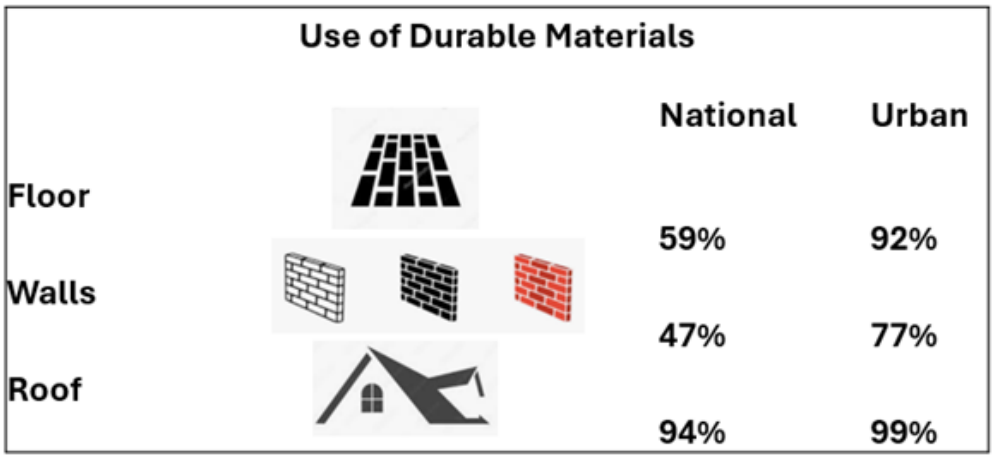


Fig 5.5: Access to Services and Neighbourhood Infrastructure

5.6. Housing Adequacy: Access to Services and Neighbourhood Infrastructure

Urban Service Access

Kenya's urban areas comprise approximately 5.4 million households, representing about 38.6% of the national population. While reported access to basic services, such as drinking water, sanitation, electricity, and cooking energy, is relatively high in aggregate, the adequacy and reliability of these services vary significantly across cities and settlement types. Assessing housing adequacy therefore requires looking beyond shelter alone to include service access and functionality, particularly water supply reliability, sanitation arrangements, waste management, drainage, and neighbourhood connectivity.

96.7% have access to improved sources of drinking water, taps often run dry due to frequent supply interruptions. Most communities lack backup systems such as boreholes or alternative water sources, leaving them highly vulnerable when piped water fails. Without supplementary options like rainwater harvesting, community-managed boreholes, or small-scale water storage infrastructure, households remain exposed to recurring shortages despite high coverage on paper.

93.4% have access to an improved toilet facility

91.0% use electricity as main source of Lightning.

64.2% use Liquefied Petroleum Gas (LPG) as the main cooking fuel

58.1% of urban households have access to a toilet facility shared with other households

23.4% use private companies for solid waste disposal

21.1% have access to bitumen/cabro/paved roads leading to their dwelling units

Fig 5.6 Kenya Housing Survey on Basic Amenities Report

Source:2023/2024 Kenya Housing Survey Basic Report, https://www.knbs.or.ke/wp-content/uploads/2025/01/2023-24-Kenya-Housing-Survey-Basic-Report.pdf

Overall, more than 90% of urban households report access to improved drinking water sources, improved toilet facilities, and electricity as the main source of lighting. However, significant service-related adequacy gaps remain. Only 42% of urban households have access to a private toilet, and nearly 80% lack paved roads leading to their dwellings. These deficits have direct implications for health outcomes, safety, mobility, service delivery, and long-term liveability, particularly in high-density and under-served neighbourhoods.

Rural Service Access

While rural areas typically have higher rates of homeownership, housing adequacy is constrained by limited access to services and infrastructure that support safe and productive living. A significant proportion of rural households remain without reliable access to improved water sources, safe sanitation facilities, electricity, and all-weather road networks. These gaps reduce liveability and increase vulnerability, particularly for low-income households that must manage both shelter improvement and service access through self-financing.

Rural service constraints also shape housing outcomes in more subtle ways. Limited road connectivity increases the cost of transporting building materials, labour, and household goods, raising the effective cost of incremental construction. In addition, weak access to drainage, solid waste systems, and health and education facilities can discourage formal housing investment and prolong reliance on substandard structures. The result is a pattern of "ownership without adequacy," where households may hold secure tenure but remain exposed to poor environmental conditions, higher health risks, and slower long-term asset accumulation.

These rural liveability constraints reinforce the need for housing policy to treat infrastructure as a core part of affordability. Without coordinated investment in water, sanitation, electricity, and access roads, rural households will continue to build incrementally but remain locked into low-quality housing outcomes, even where land access is not a constraint.

5.7. Housing Policy and Housing Finance Landscape (AHP, Levy, KMRC)

These affordability and adequacy constraints have shaped Kenya's policy response, including a renewed focus on subsidised supply delivery, statutory financing mechanisms, and reforms to mortgage market liquidity.

Kenya's housing sector is shaped by a combination of national housing policy interventions, statutory financing mechanisms, and market-based housing finance institutions. Together, these frameworks define the operating environment within which households, developers, lenders, and long-term institutional investors engage in housing delivery and financing. While the policy agenda has increasingly prioritised affordable housing, structural gaps remain in affordability, end-user finance, and the supply of well-located and serviced housing stock.

Affordable Housing Programme (AHP): Launch and Rationale

The Affordable Housing Programme (AHP) emerged as a flagship national initiative aimed at expanding access to decent and affordable housing for low- and middle-income households. It was introduced in response to Kenya's persistent housing deficit, rapid urbanisation, and the limited reach of conventional mortgage finance, particularly for households that are excluded from formal lending markets due to affordability constraints, income informality, or weak collateral availability.

The AHP is structured to expand housing supply while improving access through a combination of public-sector coordination, private-sector delivery partnerships, and housing finance reforms. While much of the programme's focus is centred on urban and peri-urban areas, where demand pressures and rental dependence are highest, the policy direction also recognises the importance of improving rural housing conditions and supporting incremental construction pathways within a broader national housing strategy.

Affordable Housing Act, 2024: Legal Framework and Definition of Affordability

The enactment of the Affordable Housing Act (2024) provides a statutory framework for the implementation of the AHP. The Act defines affordable housing as housing that does not exceed 30% of a person's monthly income to rent or acquire, aligning affordability thresholds with widely used international standards and prudential housing cost benchmarks.

To strengthen governance and coordination, the Act establishes institutional structures at both national and county levels. These include an Affordable Housing Board, as well as County Rural and Urban Affordable Housing Committees, which are responsible for supporting programme design, advising county governments, coordinating implementation, and aligning infrastructure planning with housing development through collaboration with national agencies, municipal boards, and city authorities.

Affordable Housing Levy: Structure and Governance

The Affordable Housing Act, 2024 introduces the Affordable Housing Levy as a statutory financing mechanism to support housing delivery. The levy is applied at a rate of 1.5% of an employee's gross salary, matched by a further 1.5% employer contribution. For individuals earning income outside formal employment, a 1.5% contribution on gross income is also prescribed (required). Importantly, these contributions are **mandatory under the law** and are not contingent upon an individual's intention to acquire a housing unit.

All levy proceeds are remitted into the **Affordable Housing Fund**, which operates as a pooled national fund rather than an individual savings account. Contributors do not automatically accumulate ring-fenced balances equivalent to their contributions. Instead, the Fund is designed to finance housing development, infrastructure, and related affordable housing programs at scale.

However, the Act also provides for a voluntary savings mechanism that allows individuals to make additional contributions toward deposit accumulation for an affordable housing unit. These voluntary savings are distinct from the mandatory levy. In the event that a contributor does not secure allocation of a housing unit, the law provides for the refund of voluntary savings (subject to prescribed conditions), but the mandatory levy contributions are not structured as refundable individual deposits.

This distinction is central to public debate: while the levy operates as a socialized financing pool intended to expand housing supply nationally, individual contributors may not directly or proportionally benefit through home acquisition. In effect, the levy functions more like a hypothecated housing tax than a personalized housing savings scheme.

The Act provides for tax relief for resident individuals equal to 15% of contributions, capped at KShs 108,000 per annum. Funds collected under the levy are managed by the Affordable Housing Board, which is mandated to design housing investment programmes, deploy funding to implementation partners, mobilise additional resources, and enter into agreements with public and private entities to support housing delivery and enabling infrastructure.

Housing Unit Categories and Financing Parameters under the Act

The Affordable Housing Act defines housing categories linked to income thresholds and settlement context. These include:

- Social housing units, targeted at individuals earning below KShs 20,000 per month.
- Affordable housing units, targeted at individuals earning between KShs 20,000 and KShs 149,000 per month.
- Affordable middle-class housing units, targeted at individuals earning above KShs 149,000 per month.
- Rural affordable housing units, targeted at individuals residing in non-urban areas.

Eligible beneficiaries are required to pay a deposit of 10% of the sale price. Where beneficiaries are unable to raise the required deposit, the Act provides for potential assistance through mechanisms administered by the Affordable Housing Board.

Financing under the programme is structured around loans repayable on a reducing balance basis, with interest rates capped at not more than 9% per annum (Affordable Housing Act, 2024; Affordable Housing Regulations, 2024). Within this ceiling, the framework differentiates pricing by housing category: up to 3% per annum for Social Housing Units, up to 6% per annum for Affordable Housing Units, and up to 9% per annum for Market Housing Units (State Department for Housing and Urban Development, 2024 Programme Framework; Affordable Housing Regulations, 2024).

This tiered interest structure reflects an income-segmented design. Social housing, targeted at the lowest income households, benefits from the most concessional rate to minimize monthly repayment burdens and enhance inclusion. Affordable housing units, aimed at lower-middle-income earners, carry moderate pricing to balance accessibility and fund sustainability. Market units, though still capped below many commercial mortgage rates, are priced higher to support blended project economics and cross-subsidization within mixed-income developments.

The programme provides for ownership transfer upon full repayment, anchoring delivery within a long-term amortization model rather than rental-to-own informality (Affordable Housing Act, 2024). In addition, resale and transfer restrictions require Board consent and certification prior to onward sale, a safeguard intended to curb speculative flipping and ensure units remain within designated beneficiary income bands for prescribed periods (Affordable Housing Act, 2024; Affordable Housing Regulations, 2024).

In summary, the framework combines: Capped, reducing-balance loan financing, Segmented concessional pricing (3%, 6%, 9%), Cross-subsidy architecture, and transfer controls to preserve affordability objectives.

While structurally more income-sensitive than conventional mortgages, its long-term effectiveness will depend on enforcement capacity, alignment of unit pricing with household incomes, and the sustainability of Affordable Housing Fund inflows under the statutory levy framework.

Kenya Mortgage Refinance Company (KMRC): Background and Purpose

To strengthen access to long-term housing finance, the Government of Kenya, supported by development partners, introduced legal and regulatory reforms to enable the establishment of a mortgage refinance facility. Amendments to the Central Bank of Kenya Act through the Finance Act (2018) provided for the licensing and regulation of mortgage refinance businesses.

Following these reforms, the Central Bank of Kenya (Mortgage Refinance Companies) Regulations, 2019 established the regulatory basis for mortgage refinancing institutions. Under this framework, the Kenya Mortgage Refinance Company (KMRC) was licensed on 18 September 2020.

KMRC provides long-term funding to participating primary mortgage lenders, including commercial banks, microfinance banks, and SACCOs. Its core objective is to enable longer-tenure and lower-interest housing loans by improving lender access to stable refinancing, reducing maturity mismatch, and supporting more predictable repayment structures for eligible borrowers.

KMRC-backed facilities are intended to expand housing finance access for households with stable and verifiable income streams, operating alongside other housing microfinance and SACCO-based lending models that support incremental housing development. As such, KMRC forms a key component of Kenya's evolving housing finance ecosystem, particularly for initiatives seeking to scale affordability-aligned lending products for formal-sector and near-formal households.

Kenya's housing challenge therefore reflects a combined crisis of affordability, adequacy, and access. Rapid household formation, rental dominance in urban areas, and rural infrastructure deficits continue to widen the gap between housing need and housing outcomes. Compounding these pressures is a significant infrastructure financing gap, where developers frequently shoulder the upfront costs of roads, water, sewerage, and electricity connections—costs that are ultimately capitalised into house prices and passed on to end buyers. In effect, households do not only pay for shelter, but also for the basic services that should underpin functional communities, further stretching already constrained incomes. Within this context, expanding homeownership will depend not only on increasing supply, but on aligning housing typologies, pricing, and financing structures with the realities of household incomes and saving behaviour. This provides the basis for the next section, which assesses affordability and demand using pension member evidence from Zamara's administered schemes.

6. DISSECTING AFFORDABILITY, DEMAND PATTERNS, AND SUPPLY-SIDE LIMITATIONS

Understanding the dynamics of **affordability, housing demand, and supply** is critical in assessing the feasibility of homeownership among members. These three elements are closely interconnected, affordability determines the ability to pay, demand reflects the aspiration and willingness to acquire housing, while supply defines the availability of suitable housing options within reach.

From the findings, a large proportion of members fall within the low- to middle-income bracket, with many already committing a significant share of their income to rent and existing debt obligations.

6.1. Demographics Analysis

Zamara surveyed over **2,000** respondents, providing insight into their population structure, income distribution, employment patterns, and housing circumstances. The population is predominantly composed of individuals within the **25–44 age bracket**, indicating a largely economically active group engaged in household formation and long-term financial planning. Younger individuals (**18–24 years)** are present but less prominent, while older age groups **(55+ years)** are minimally represented.

From a housing perspective, the population is primarily composed of renters, with approximately two-thirds residing in rental accommodation. Common housing types include apartments and standalone houses, though a notable proportion of respondents live in informal structures, highlighting disparities in housing access. Households are generally moderate in size, with nuclear families forming the dominant structure.

Overall, the demographic profile reflects a young, economically active, and predominantly low- to middle-income population with a strong reliance on rental housing and limited penetration of homeownership.

6.2. Phase 1: Pension Data Analysis and Affordability Modelling

Analysis of Zamara pension member data reveals a clear and persistent affordability constraint among formally employed Kenyans. While homeownership aspiration is high, effective affordability remains concentrated within a narrow band, typically between KShs 1.7 million and KShs 3.4 million. This affordability envelope reflects the combined influence of household incomes, prudential lending limits, required deposits, and prevailing interest rate conditions.

Under existing mortgage market structures, most pension members fall below the income thresholds required to sustain conventional mortgages at scale. High deposit requirements (often 10–30%), exposure to interest rate risk, and relatively rigid loan qualification criteria further reduce practical mortgage uptake (Central Bank of Kenya, Banking Sector Reports; Kenya Bankers Association Housing Price Index). As a result, mortgage penetration in Kenya remains low estimated at fewer than 30,000 active mortgage accounts nationally in recent years despite steady growth in pension membership(contributions) and formal employment (Central Bank of Kenya, Annual Banking Supervision Reports).

At the same time, rental housing continues to be more financially accessible for comparable housing typologies, even where concessional mortgage rates and longer tenors are introduced. This is partly because rental requires no large upfront deposit, no long-term debt exposure, and no qualification under strict debt-to-income thresholds. Structurally, rental delivery also operates under a slightly different regulatory and financing environment. Developers targeting rental markets particularly in middle- and lower-income segments often face lower immediate compliance burdens relative to mortgage-backed developments, including more flexible phasing of infrastructure, parking ratios, and incremental construction standards depending on zoning category and local authority enforcement practices. These factors reduce upfront capital intensity and enable units to enter the market at price points that align more closely with prevailing urban incomes (KNBS, 2019 Kenya Population and Housing Census; World Bank Kenya Urbanization Review).

Even when mortgage rates are reduced and tenors extended (such as under KMRC refinancing), the affordability gap persists because monthly repayment obligations factoring in principal, interest, insurance, and service charges often exceed median urban rental payments for similar unit sizes. In effect, rental remains the lower-risk, lower-commitment option for many formally employed households, particularly those already managing other forms of debt.

At the same time, the evidence confirms that the dominant housing pathway is not immediate purchase through large mortgages, but rather incremental, staged homebuilding supported by smaller, manageable financing tranches. Pension-secured housing lending remains underutilised largely because products are poorly aligned with affordability realities and household behaviour, and because contributors remain cautious about retirement security implications.

Overall, these findings reinforce a central conclusion: housing demand is strong, but effective demand is structurally constrained by affordability and market design.

Income Profile and Demographic Characteristics of Members

Income distribution among Zamara pension members is concentrated within the low- to middle income segments, with the majority earning between **KShs. 50,000 and KShs. 150,000** per month, and only a small proportion falling within higher income categories. Employment is largely within education, financial services, and other service-oriented sectors, reflecting a predominantly salaried and semi-formal workforce. Overall, this income and demographic profile reinforce the affordability constraints observed across the membership base.

The key patterns are as follows:

- 83% of members earn below KShs. 150,000 per month, while only 2.5% earn above KShs. 500,000, indicating that most members fall within low- to mid-income brackets.
- The membership base is relatively young, with 44.4% aged between 20 and 40 years, reflecting longer planning horizons for housing acquisition and asset accumulation.
- Employment is concentrated in relatively stable sectors, with 37.2% in the financial sector and 34.5% in parastatal institutions, supporting consistency in pension contributions and long-term savings behaviour.
- Members aged 40–45 years record the highest average monthly salary (KShs. 132,779), consistent with mid-career income peaks.
- Members in the IT sector form the youngest cohort, with the lowest average age of 39.4 years.

This profile places Zamara members broadly within the Affordable Housing Programme (AHP) target range from an income threshold perspective. However, income inclusion alone does not translate into housing access when supply pricing, unit typologies, and financing mechanisms remain misaligned with the realities of household affordability.

Mortgage Eligibility Versus Practical Affordability

A major finding from the analysis is the distinction between mortgage eligibility and practical affordability.

While approximately 91% of Zamara members may be technically eligible to apply for housing credit based on formal criteria, the value of housing finance they can sustainably service is far lower than the cost of most formal housing units in Kenya's urban markets.

Affordability modelling indicates that:

- Only 32,926 members could sustainably service housing loans of KShs 3 million or more.
- Just 17,725 members could realistically afford a mortgage of KShs 5 million.
- Only 6,146 members could sustain a mortgage of KShs 10 million or more.

This suggests that while eligibility may be broad, affordability is concentrated and shallow, especially once realistic repayment constraints and high levels of existing household debt are factored in (applied). Even among formally employed households, debt obligations from personal loans, SACCO facilities, mobile credit, asset financing, and other short-term borrowing significantly compress disposable income and increase debt-to-income ratios, thereby reducing effective mortgage capacity despite stable earnings and pension contributions.

Using a KMRC-supported interest rate of 9.5%, a 25-year tenor, and a conservative 30% instalment-to-income ratio:

- A household earning KShs 50,000 per month may afford a loan of approximately KShs 1.7 million.
- A household earning KShs 100,000 per month may afford a loan of approximately KShs 3.4 million.

These figures effectively define the affordability ceiling for a significant share of formally employed households and provide a realistic benchmark for what "affordable housing" means in practice for pension contributors.

Why Conventional Mortgages Remain Out of Reach

Despite strong housing aspiration and increasing formal employment, conventional mortgages remain inaccessible to most households due to overlapping demand-side and supply-side constraints.

a) Income levels relative to housing prices

Even modest mortgage sizes generate monthly repayments that exceed prudential debt-service thresholds for many households. As a result, many households that can sustain rent payments struggle to transition into ownership through conventional mortgage structures.

b) High interest rates and fragile affordability

Mortgage interest rates in Kenya remain elevated. Although loan tenors may extend to 20–25 years, affordability is often undermined by risk pricing, income shocks, and conservative underwriting that limits effective borrowing capacity.

c) Deposit and upfront cost barriers

Deposits (often 10–20%) alongside legal fees, valuation costs, and stamp duty create major upfront constraints. These costs remain prohibitive even for households that may have long-term repayment capacity.

d) Misalignment between mortgage products and dominant housing behaviour

Most Kenyan households acquire housing through incremental processes: purchasing land, building in phases, and upgrading over time. Conventional mortgages are structured for completed units and large one-time disbursements, which does not match the dominant pathway of housing acquisition.

e) Conservative credit assessment models

Many formally employed workers demonstrate financial discipline through consistent pension contributions, yet credit scoring models may not sufficiently recognise long-term savings behaviour as an affordability strength.

f) Weak integration of pension-based mechanisms

Although regulations allow pension savings to be used as collateral, mainstream lenders rarely operationalise pension-backed lending in accessible, simple, and well-structured formats, leaving long-term savings underutilised.

g) Housing supply and typology mismatch

The formal housing market remains skewed toward higher-priced units. Homes within the KShs 1.7–3.4 million affordability range are limited, and where they exist, unit sizes are typically small (studios, bedsits, 1 bedrooms) and do not align with household family needs.

Implications for Housing Finance and Product Design

The findings confirm that housing demand among formally employed workers is strong, but effective demand, defined as demand supported by sustainable finance, is constrained.

Four implications stand out:

a) Housing finance must align to realistic income-based affordability, not headline eligibility. Eligibility metrics may appear favourable, but affordability constraints define actual access.
b) Products must support incremental housing pathways rather than only turnkey purchases. Housing finance design must reflect phased construction, flexible disbursement, and affordability-based sizing.
c) Pension-backed mechanisms must be operationalised responsibly. Well-designed pension-based solutions should reduce barriers (especially deposits and risk pricing) while maintaining retirement security and avoiding premature depletion of benefits.

d) Enabling Ecosystem for housing delivery should be more coordinated to bring down cost and time of housing delivery which is passed on from the developer to the homeowner. Developers building standalone rental often face lower regulatory hurdles than for sale developers (for example, lower parking ratios, legal fees for titling etc) hence the wide gap between rental rates and monthly mortgage instalments even on long term, subsidised interest KMRC backed mortgages

Without deliberate alignment between housing supply, financing instruments, and household behaviour, the affordability gap will persist even among financially disciplined and formally employed pension contributors.

Housing Preferences and Behavioural Patterns

Housing choices in Kenya are shaped less by preference for formal mortgages and more by the need for flexibility, risk management, and alignment with irregular cash flows. The study confirms that incremental housing is not a fallback option, but the dominant and rational pathway to homeownership for most households.

However, while supporting incremental housing aligns with prevailing income realities, it is unlikely on its own to close the structural housing deficit running into the hundreds of thousands of units annually. Incremental construction is typically slow, self-financed, and dispersed across peri-urban and rural land parcels. It responds to household-level constraints but does not generate the scale, density, or speed required to meet urban demand growth. Moreover, as urban land becomes increasingly scarce and expensive, horizontal, plot-based incremental expansion becomes economically inefficient and spatially unsustainable.

Land constraints are particularly binding in major urban centres. Serviced land is limited, titling processes remain lengthy, infrastructure provision is uneven, and development approvals can be protracted. These inefficiencies increase holding costs, raise developer risk, and inflate final unit prices. As a result, even well-intentioned affordability policies struggle to translate into large-scale formal supply.

Strengthening the enabling environment for formal housing delivery is therefore essential. Contrary to public perception, many developers operating responsibly within regulatory standards report relatively modest margins often in the range of 9–10% net returns when projects are efficiently executed and compliance costs are fully accounted for. These returns are not excessive given the capital intensity, approval risk, infrastructure burden, financing costs, and market absorption uncertainties developers face. In this context, high housing prices are less a function of excessive profit-taking and more a reflection of systemic cost drivers embedded in land markets, infrastructure gaps, taxation layers, and financing structures.

If Kenya is to deliver housing at the scale required potentially millions of units over the coming decades the policy focus must move beyond demand-side affordability tools toward structural supply-side reform. This includes accelerating land servicing and titling, streamlining development approvals, rationalizing infrastructure cost-sharing frameworks, reviewing parking and density regulations where appropriate, deepening construction finance markets, and expanding risk-sharing vehicles that crowd in institutional capital.

Incremental housing remains a critical and rational pathway for households. But without a parallel strategy to unlock efficient, formal, large-scale supply in urban areas, the country risks entrenching low-density sprawl, rising land costs, and persistent affordability gaps. The solution is not to replace incremental housing, but to complement it with a reformed ecosystem that makes formal delivery viable, scalable, and investable.

a) Alignment with Income Patterns - Most households, including formally employed pension members, experience income variability due to bonuses, job transitions, family obligations, and economic cycles. Incremental housing allows construction to progress in stages, matching cash availability and reducing the risk of financial distress associated with fixed monthly mortgage repayments.

b) Lower Entry Barriers and Reduced Financial Risk - Incremental building lowers upfront costs by spreading land acquisition, construction, and finishing over time. This approach minimizes exposure to large debt obligations and enables households to pause or accelerate construction without default risk, unlike conventional mortgages with rigid repayment schedules.

c) Compatibility with Pension-Based Financing- Incremental housing aligns naturally with pension savings behaviour. Periodic savings accumulation, voluntary contributions, or pension-backed loans can be deployed in phases to finance land purchase, foundation works, or progressive construction, without compromising long-term retirement security. (Refer to section 6.4)

Strategic Insight-Pension-based financing complements incremental housing because both operate on a long-term, phased accumulation model. However, safeguards remain critical. Excessive assignment of retirement benefits could undermine future income security if projects stall or incomes fall. A balanced approach where pension leverage supports, but does not substitute, sustainable repayment capacity preserves retirement adequacy while expanding housing access.

This compatibility reinforces the logic of integrating pension systems with structured incremental housing finance products, particularly where formal mortgage affordability remains constrained.

d) Flexibility in Housing Design and Location - Households prefer incremental housing because it allows customization, self-management, and location choices that reflect family needs, proximity to employment, and access to services. This contrasts with developer-led housing, which often prioritizes standardized units in limited locations.

e) Behavioural Evidence from Member Surveys - Survey results confirm that most pension members do not seek large, one-time mortgages. Instead, they prefer smaller, manageable financing tranches aligned to construction milestones. This reinforces the mismatch between traditional mortgage products and actual housing behaviour.

f) Market Validation of Incremental Construction - The affordability range identified in Phase 1 (KShs 1.7–3.4 million) closely mirrors the cost of incremental housing units across urban and peri-urban Kenya. This demonstrates that flexible housing pathways are not only preferred but economically viable at scale.

Taken together, the Phase 1 results confirm that the binding constraint is not housing aspiration, nor formal eligibility, but the affordability envelope created by income levels, interest rates, existing debt burdens, and deposit requirements. To complement these findings, Phase 2 of the study explored how pension members experience housing decisions in practice how they save, where they live, how they acquire housing, and which financing pathways they view as realistic.

The evidence clearly demonstrates that incremental housing is rational, adaptive, and aligned with prevailing income structures. It reflects how households actually manage risk: building progressively, minimizing long-term debt exposure, and matching expenditure to cash flow. As such, incremental financing mechanisms particularly those linked to pension savings, SACCO lending, and phased construction are necessary components of any realistic housing strategy.

However, incremental delivery alone will not resolve Kenya's structural housing deficit.

While it accommodates current income realities, it does not generate the scale, density, speed, or urban efficiency required to meet projected demand. The country faces an annual shortfall of hundreds of thousands of units. Incremental construction, by design, is slow, self-managed, and geographically dispersed. It often occurs on unserviced or peri-urban land, contributing to sprawl, infrastructure inefficiency, and rising long-term service provision costs.

If the report focuses exclusively on incremental pathways, it risks reinforcing adaptation to constraint rather than enabling transformation.

Importantly, formal developers operating within regulatory frameworks report relatively modest net returns often in the range of 9–10% under efficient execution suggesting that high housing prices are driven less by excessive margins and more by structural cost layers embedded in land, infrastructure, taxation, and finance. Addressing these systemic drivers is essential if formal supply is to expand at scale.

Commercial banks and institutional lenders must also re-enter the housing finance conversation more actively. Mortgage penetration remains low not simply because households prefer incremental building, but because conventional products are poorly aligned with income realities and risk perceptions. Product innovation such as graduated repayment structures, hybrid incremental-to-mortgage models, pension-collateralised facilities, and longer-tenor fixed-rate windows could bridge this gap if supported by policy and liquidity mechanisms.

The strategic message emerging from both phases of the study is therefore twofold:

1. Incremental housing finance is indispensable in the current environment and should be strengthened, structured, and safeguarded.

2. But without reforms that unlock efficient formal supply and scalable bank financing, Kenya will not close its housing deficit nor achieve meaningful urban transformation.

The objective is not to choose between incremental and formal systems. It is to build a continuum where households can begin incrementally, if necessary, but transition into safer, denser, formally serviced housing markets as income, finance, and supply conditions improve.

Only through that dual-track approach can housing policy move beyond coping mechanisms toward structural resolution.

6.3. Phase 2 Household Survey: Housing Status, Preferences, and Lived Experience

Phase 2 translates the affordability modelling into lived experience. While Phase 1 identified the structural constraints shaping housing access, this phase examines how those constraints are experienced in practice housing tenure patterns, acquisition pathways, aspirations, financing behaviour, and perceived barriers. The objective is to ensure that policy and financing recommendations reflect not only what is financially feasible on paper, but also what households are behaviourally likely to pursue.

Survey Overview

Following the quantitative affordability and housing finance assessment conducted in Phase 1, Zamara implemented a nationwide household survey to deepen understanding of pension members' housing circumstances and decision-making patterns. The survey focused on formally employed pension contributors, a cohort that sits at the centre of Kenya's emerging affordable housing market and the primary target group for pension-linked housing interventions.

The survey was administered online between 2023 and 2024 to 16,677 pension members through participating employers. A total of 2,045 complete responses were received, representing a 12.5% response rate. Respondents were drawn from all 47 counties, with higher representation from Nairobi and its surrounding commuter counties, reflecting the geographic concentration of formal employment and pension participation.

While the survey does not constitute a nationally representative sample, it is appropriately positioned for its purpose. The intention was not to generalise to the entire population, but to generate structured insight into the housing realities of low- to middle-income formal-sector workers actively participating in pension schemes. This segment is both analytically relevant and policy-critical: it represents households with stable income streams, ongoing long-term savings accumulation, and theoretical eligibility for formal housing finance, yet who remain largely excluded from conventional mortgage markets.

As such, the dataset provides a credible and decision-useful evidence base for understanding the gap between financial eligibility and practical housing outcomes within the Affordable Housing Programme's core market.

The survey assessed:

- current housing tenure and living conditions.
- housing aspirations and preferred typologies.
- financing pathways used or considered.
- constraints encountered in accessing housing finance; and
- perceptions of affordability, risk, and pension-linked housing tools.

Not all questions were answered by all respondents, reflecting survey length and the sensitivity of income and asset disclosure. Results have therefore been analysed with appropriate caveats and are presented alongside an interactive dashboard that enables segmentation by income, age, sector, and location.

Implementation Challenges and Data Reliability Considerations

Several challenges were encountered during survey implementation, including:

- survey fatigue due to survey length;
- concerns from employers and trustees regarding sensitive questions, especially within a politically charged environment.
- consent and compliance requirements under the Data Protection Act; and
- negative sentiment linked to the concurrent rollout of the Affordable Housing Levy.

More broadly, dissatisfaction with pension fund performance during the same period may also have contributed to lower engagement levels. Despite these constraints, the survey generated robust, internally consistent findings that strongly reinforce the affordability realities observed in Phase 1.

Typical Respondent Snapshot (Illustrative Profile)

The survey findings point to a consistent "middle Kenya" profile that is especially relevant for designing pension-linked housing solutions:

On average…	Typical Female Respondent	Typical Male Respondent
Average Age	35-44 years	
Family Status	Wife with at least 2 children	Husband with at least 2 children
Industry & Income Level	Works in the financial or education sector, earning less than KShs 100,000	
Location & Living Conditions	Lives in Nairobi County, in a 2 or 3-bedroom rented apartment	
House Ownership Aspirations	Dreams of building or acquiring a 3-bedroom bungalow in Nairobi County by 2030	
Average Pension Savings	KShs 1.1 million	
Other savings	Minimal, but directed towards building homes on owned land (10.4%), purchasing land (7.4%), or retirement (8.6%). Younger respondents save more for housing, while older respondents prioritize retirement.	

Table 6.2.1: Snapshot of illustrative profile of a dominant respondent character

This profile aligns closely with the Phase 1 conclusion that the core housing challenge for pension members is not lack of aspiration, but constrained affordability and weak product fit.

Note: All of the data is presented on a publicly- available dashboard. Rich with information, the dashboard offers opportunities for drilldowns and deeper analysis. By hovering over specific data points, further, drilldown graphs appear. While not from a representative sample, the data offers very useful insights into the current status, needs and preferences of a particular cohort of the Kenyan population: low-income holders of pension assets.

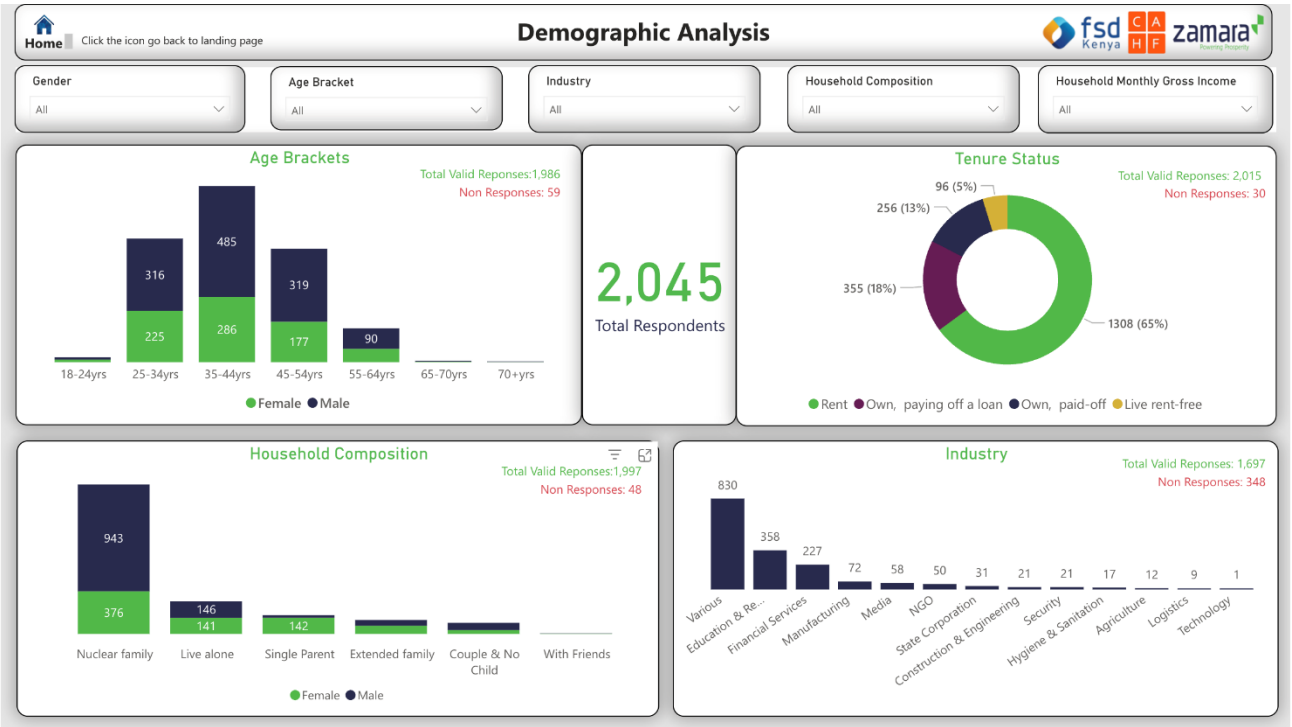


Fig 6.2.1: Demographic Analysis on Results of Residential Housing Market Survey Kenya

Housing Tenure and Ownership Patterns

Housing tenure patterns underscore the scale of demand for ownership among formally employed pension contributors. From the 2,045 respondents

- 65% of respondents currently rent;
- 5% live rent-free (with consent of the owner); and
- only 30% reported owning a home.

Among 611 homeowners:

- 40% owned their home outright; and
- 60% were still servicing housing-related loans.

A notable finding is that housing loan repayment is not confined to higher-income earners. Among the 355 respondents servicing housing loans:

- 47 reported earnings below KShs 50,000 per month; and
- 66 reported earnings between KShs 50,000 and KShs 100,000 per month.

This suggests that a meaningful number of lower-income households are already stretching their finances to access housing, often through non-traditional credit pathways and shorter-tenure borrowing products. In addition, some households may be relying on informal "soft" loans from friends and family, reflecting the continued importance of social networks and informal risk-sharing mechanisms in bridging financing gaps where formal credit remains inaccessible or unaffordable.

Housing Acquisition Pathways

The survey confirms that incremental construction is currently the dominant pathway to homeownership among pension members. Among those who owned homes (whether outright or still servicing loans), most reported that they had constructed their homes rather than purchasing completed units from developers.

Even where homes were purchased, acquisition frequently occurred through staged or blended financing arrangements combining savings, SACCO loans, short-term credit facilities, and informal support rather than through conventional long-tenor mortgages. This reinforces the Phase 1 finding that mainstream mortgage products remain structurally misaligned with prevailing household income patterns and cash flow realities.

At present, incremental construction persists not simply as a preference, but as the most feasible route available to aspiring homeowners. In the absence of simplified development processes, serviced land supply, and supportive infrastructure frameworks, many households will continue to rely on phased, self-managed building as their primary access channel.

However, while strengthening incremental housing finance products is necessary to help meet the current affordability realities, this approach alone will not generate the millions of new housing units needed. To really increase the scale of supply required to close Kenya's housing gap. Incremental delivery is inherently gradual, dispersed, and household led. It does not produce the density, speed, or unit volumes required to meet rapidly growing urban demand.

Achieving meaningful scale in both housing supply and uptake will therefore require parallel reforms that ease the delivery constraints and reduce the value chain barriers faced by formal private sector developers. This includes unlocking serviced land, streamlining approvals, reducing infrastructure bottlenecks, improving construction finance access, and enhancing predictability in the regulatory environment. Only by addressing these structural supply-side constraints alongside incremental finance solutions can the housing ecosystem transition from coping mechanisms to scalable production.

Location, Transport and Commuting Dynamics

Most respondents lived in Nairobi County (829 respondents), followed by Kiambu (343), Nakuru (159), and Machakos (102). Income distribution among Nairobi-based respondents varied widely, ranging from below KShs 50,000 to above KShs 1 million per month.

The majority of respondents reported commuting times of less than one hour, underscoring the importance of proximity to employment in housing location decisions. Vehicle ownership increased with income, indicating that higher-income households are better able to trade off housing location against transport costs, while lower-income households remain constrained to locations closer to work or accessible by public transport.

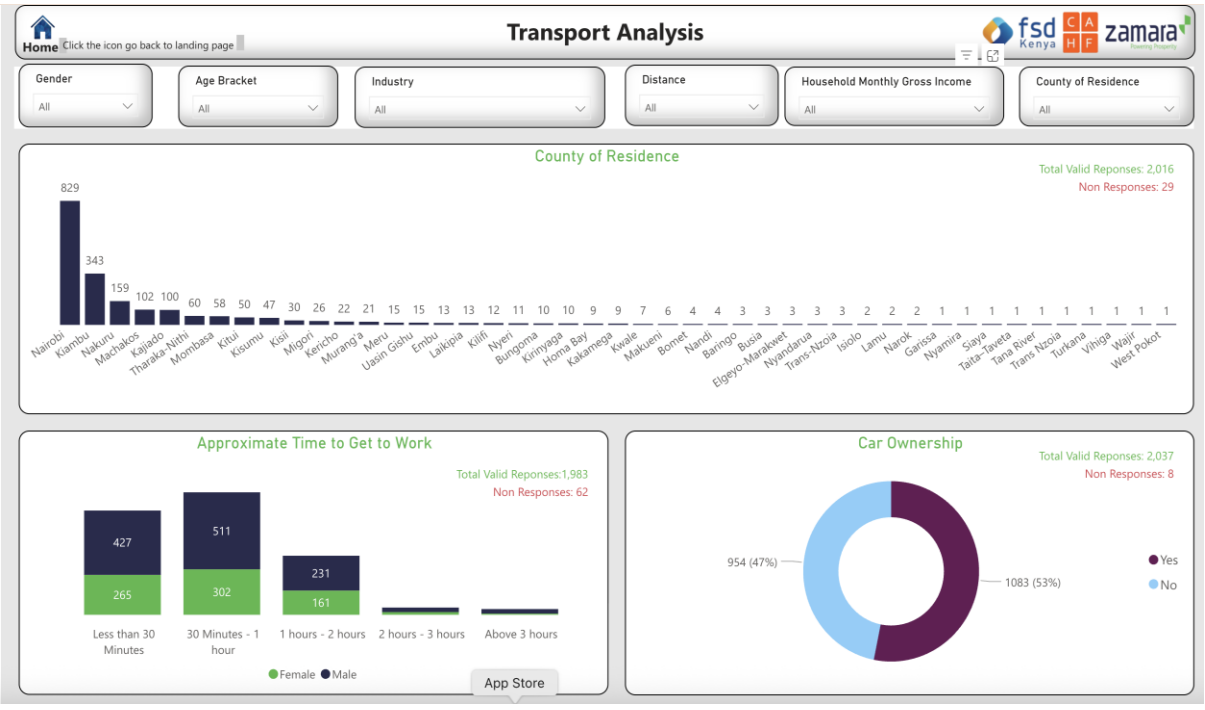


Fig 6.2.2: Transport Analysis

Living Conditions and Housing Typologies

Rental accommodation, primarily apartments, dominates among younger households, while older respondents are more likely to occupy bungalows and stand-alone houses, particularly in peri-urban or rural contexts.

Across tenure types:

- two- and three-bedroom units are the most common, reflecting a trade-off between affordability and household size;
- studios/bedsitters remain relatively uncommon; and
- maisonettes and larger homes are limited in prevalence, suggesting affordability and supply constraints rather than lack of demand.

A minority of respondents reported living in informal structures, highlighting that affordability pressures persist even among formally employed contributors.

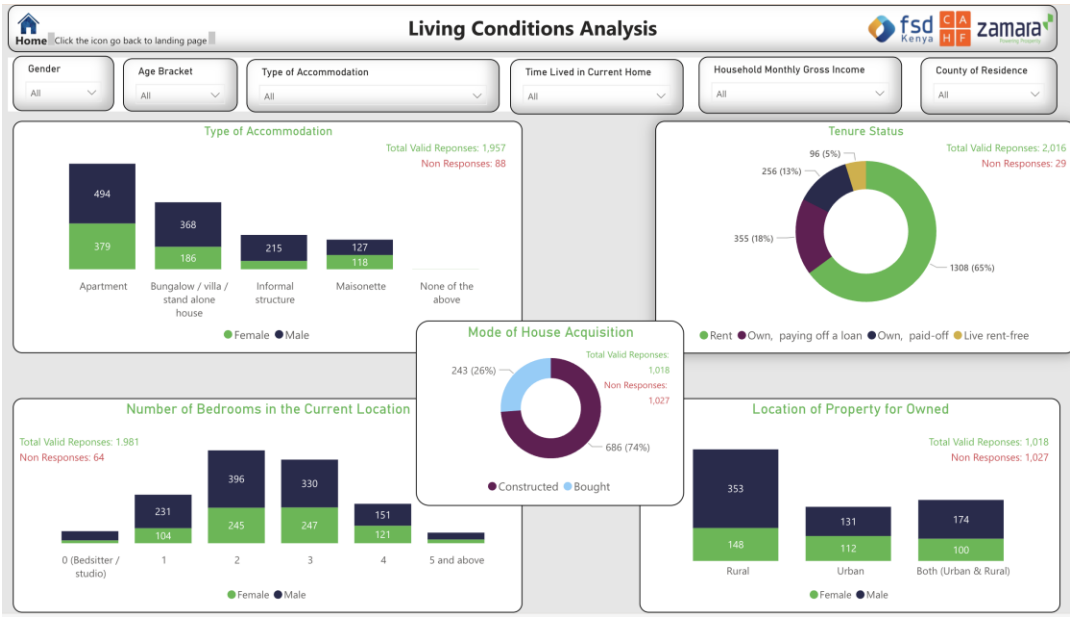


Fig 6.2.3: Living Conditions Analysis

Bedroom Preferences and Aspirations

Housing aspirations consistently exceed current living conditions. Respondents expressed strong preferences for larger, family-oriented units, particularly:

- three-bedroom homes, and
- four-bedroom homes.

This gap is especially pronounced for households currently living in smaller units:

- Respondents in one-bedroom units largely aspire toward three-bedroom homes.
- Respondents in two-bedroom units typically aim for three or four bedrooms.
- Even respondents currently occupying three-bedroom units demonstrate an aspirational "upgrade bias."

The pattern underscores a persistent mismatch between household needs (family size and liveability expectations) and the types of housing that are both available and affordable within formal market supply.

Fig 6.2.4: Current vs Preferred No. of Bedrooms Analysis

Category	Detailed Insights	Current housing situation
Type of Accommodation (1,887 respondents)	• Apartments are the most common housing type, especially among younger individuals, likely due to affordability and convenience in urban areas.	Apartments: 873 respondents (M: 494, F: 379).
	• Bungalows/Villas are the second most common accommodation, appealing to individuals seeking larger, stand-alone spaces, likely middle to older age groups.	Bungalows/Villas: 554 respondents (M:368, F: 186).
	• Maisonettes, often associated with middle-income families, have limited representation, indicating affordability challenges or preference for other housing.	Maisonettes: 245 respondents (M: 127, F: 118).
	• Informal Structures indicate a housing challenge or temporary settlement, with significantly higher representation among males than females. There were some households within pension contributors that lived in informal structures due to affordability constraints	Informal Structures: 215 respondents (predominantly male).
	• No clear housing preference was seen beyond these categories, suggesting minimal representation in other types of homes.	Minimal representation for any housing labelled as "None of the above".
Mode of House Acquisition (929 respondents)	• The majority of individuals bought their homes **(73.84%), Indicating a strong focus on ownership**	Bought: 686 respondents **(73.84%).**
	• A smaller segment constructed their homes **(26.16%),** pointing to a group that is more financially invested in building customized housing solutions.	Constructed: 243 respondents (26.16%).
	• This trend suggests that house acquisition through purchase is more accessible compared to construction, possibly due to financing availability.	
Number of Bedrooms (1,657 respondents)	• Two-bedroom homes are the most common, reflecting a balance of affordability and functionality for small to mid-sized households.	2 Bedrooms: 641 respondents (M: 396, F: 245).
	• Three-bedroom homes are also prominent, aligning with families that require additional space for children or extended family.	3 Bedrooms: 577 respondents (M:330, F:247).
	• Studio apartments (Bedsitters) were chosen by a minority, likely to appeal to single individuals, students, or those with limited financial resources.	Studios: 167 respondents (M:63, F: 104).

	• Four-bedroom homes are moderately common, highlighting demand for larger spaces	4 Bedrooms: 272 respondents (M: 151, F: 121).
	• Homes with 5 or more bedrooms are the least common, signifying niche demand among very large families or affluent individuals.	Minimal representation for homes with 5+ bedrooms.
Location of Property (918 respondents)	• Rural properties are the most common, indicating a strong preference for home ownership in non-urban areas, possibly due to affordability and larger land sizes.	Rural: 501 respondents (M: 353, F: 148).
	• Urban properties are less prevalent, suggesting that higher costs of land and housing in cities may hinder home ownership.	Urban: 243 respondents (M: 131, F: 112).
	• Mixed location properties (urban & rural) show balanced representation, highlighting individuals who own homes in both settings for flexibility and investment.	Mixed Location: 174 respondents (M:100, F: 74).

Table 6.2.2: Detailed Insights on current housing situation

Taken together, the Phase 2 findings confirm that housing demand among pension members is strong, structured, and forward-looking, but constrained by:

- affordability pressure.
- limited supply of appropriately priced family housing.
- product design misalignment with incremental housing realities; and
- insufficient integration of pension mechanisms into practical, scalable housing finance solutions.

Preferences for incremental construction, larger family-oriented units, and flexible financing structures remain consistent across age and income segments. These findings reinforce the central conclusion of this study: Kenya's housing challenge is not a demand problem; it is an affordability and alignment problem, coupled with need for supply side enhancement to bridge the gap between the cost of delivery of a home for sale and for rent

Expressed Demand for Homeownership

Survey responses point to strong *latent demand* for homeownership among pension members. Most respondents indicated an intention to either buy or build a home within the next five years, reflecting a population that is planning actively and views housing as a priority asset.

A consistent pattern across income groups is that the primary housing strategy is to build on land already owned. This finding reinforces earlier evidence that incremental, self-managed construction remains the dominant housing acquisition pathway among formally employed households. While this approach allows households to work around the limitations of formal mortgage markets, it also implies that rental demand in urban areas is likely to remain high, as many households continue renting near employment centres while constructing homes gradually in peri-urban or rural locations.

However, expressed demand does not automatically translate into readiness to transact. While many respondents reported strong interest in homeownership, fewer indicated that they could mobilise upfront liquidity. Only a subset of respondents expressed confidence in meeting a 10% deposit requirement, suggesting that short-term liquidity constraints remain binding, even where long-term intent is strong.

Consistent with this constraint, households rely more heavily on personal loans than mortgages when financing housing-related expenses. This reflects both affordability challenges and the relative accessibility of unsecured or semi-secured credit compared with conventional mortgage products.

Among respondents who reported no intention to buy or build within the next five years, the primary reasons were:

- competing financial obligations,
- perceived unaffordability, or
- satisfaction with current housing arrangements.

This segment appears less driven by unmet housing need and more influenced by household trade-offs, risk aversion, and income limitations, particularly among those already in stable rental or owner-occupied situations.

Overall, the survey confirms that housing demand is widespread but conditional: aspirations are high, but the ability to mobilise deposits and access suitable financing remains a decisive constraint. Additionally, monthly instalments on a formally delivered unit for sale, continues to be much higher than more affordable rental options available, for a comparatively smaller floor area. This speaks to the need to support an enabling environment for housing suppliers from coordinating approvals to providing offsite infrastructure and reducing parking requirements.

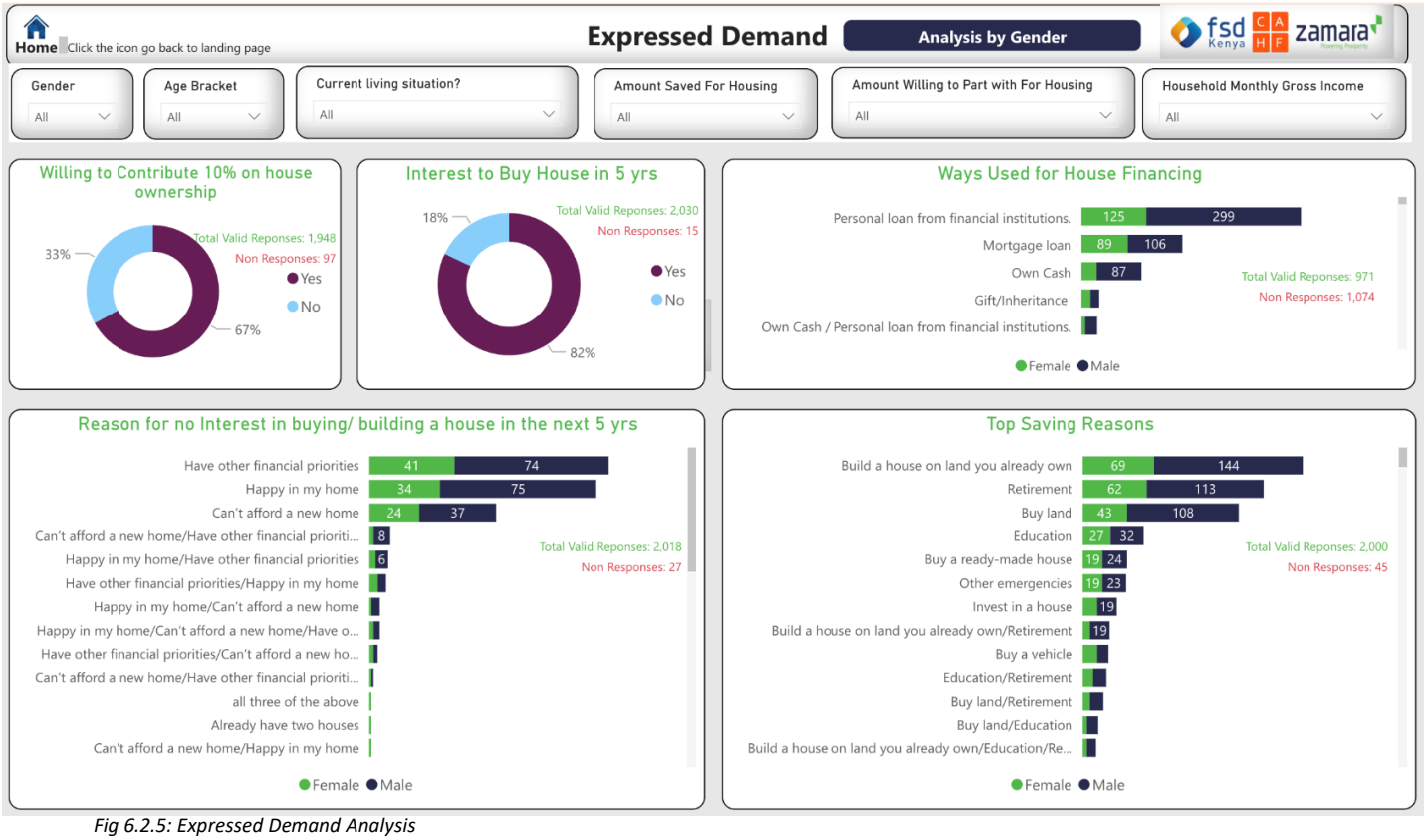


Fig 6.2.5: Expressed Demand Analysis

Insights from Expressed Demand

The survey findings confirm that housing demand is not constrained by lack of interest, but rather by structural barriers related to affordability and the design of housing finance mechanisms. Across income segments, respondents demonstrate clear intent to acquire housing, but current financing tools do not adequately convert demand into *effective purchasing power*, particularly among women and lower-income earners.

Savings behaviour plays a central role in household housing strategies. Savings are used not only as a pathway toward eventual ownership, but also as a prerequisite for deposit mobilisation and perceived creditworthiness. This highlights the relevance of strengthening structured savings mechanisms that can support housing outcomes, including:

- cooperative savings schemes,
- employer-supported housing savings options,

- and pension-secured or pension-linked housing pathways.

Pension Saving Bracket	Members
KShs. 0 - 500,000	16,342
KShs. 500,000 - 1,000,000	11,109
KShs. 1,000,000 - 1,500,000	8,238
KShs. 1,500,000 - 2,000,000	4,230
KShs. 2,000,000 - 2,500,000	2,851
KShs. 2,500,000 - 3,000,000	2,309
KShs. 3,000,000 - 3,500,000	1,971
KShs. 3,500,000 - 4,000,000	1,787
KShs. 4,000,000 - 4,500,000	1,670
KShs. 4,500,000 - 5,000,000	1,390
> KShs. 5,000,000	10,807
Total	**62,704**

Province	Members	Avg Salary (KShs.)
Nairobi	142,076	104K
Nakuru	3,044	121K
Mombasa	1,325	121K
Thika	601	125K
Limuru	456	94K
Migori	398	65K
Embu	368	84K
Mumias	125	72K
Kakuma	123	83K
Muranga	96	72K
Ruaraka	82	99K
Meru	65	32K
Kisumu	58	80K
Naivasha	56	148K
Ruiru	19	316K
Total	**148,892**	**104K**

Table 6.2.3 : Outlook on Pesion Saving Brackets Members and Average Salary

When combined with secure land tenure and financing structures aligned with cash-flow realities, savings-led approaches can provide a gradual and lower-risk transition from renting to owning.

Taken together, the evidence reinforces the need for inclusive housing finance models designed around household behaviour, integrating savings, incremental construction, and flexible credit, rather than relying primarily on conventional mortgage products.

Insight Area	Insight	Details
Willingness to Contribute 10% Toward House Ownership (1,948 Respondents)	Majority are willing to invest in house ownership	67% Yes, 33% No
Interest in Buying a House in the Next 5 Years (2,030 Respondents)	Strong intent to buy houses in near future	82% Yes, 18% No
Methods used to finance homes that have already been purchased or constructed (971 Respondents)	Preference for formal financial institutions	**Top 3 methods:** 1. Personal loans (M: 299, F: 125) 2. Mortgage loans (M: 106, F: 89) 3. Own cash (M: 87)
Reasons for No Interest in House Purchase (Next 5 Years) (2,018 Respondents)	Financial constraints and satisfaction with current home dominate	**Top Male Reasons:** – Other priorities (74) – Happy in current home (75) – Can't afford (37) **Top Female Reasons:** – Other priorities (41) – Happy in home (34)
Top Saving Reasons (2,000 Respondents)	Long-term wealth building is the top motivator	**Top 5 reasons:** 1. Build on own land (M: 144, F: 69) 2. Retirement (M: 113, F: 62)

		3. Buy land (M: 108, F: 43)
		4. Education (M: 32, F: 27)
		5. Buy ready-made house (M: 24, F: 19)
Gender-Based Differences	Males more active in loan usage and saving for housing	Indicates a need for more gender-inclusive financial products
Market Opportunity	High demand but affordability gap exists	Clear potential for tailored financial solutions like micro-mortgages, land-based housing, or pension-linked housing products

Table 6.2.4: Insights on Expressed Demand

While expressed demand reflects aspiration and intent, effective demand reflects the ability to convert that intent into a viable housing purchase or construction pathway under real-world financial constraints.

Effective Demand: Borrowing Capacity, Debt Burden, and Deposit Constraints

While expressed interest in homeownership is high, effective demand is materially constrained by debt obligations, shallow savings, and affordability thresholds.

A significant proportion of respondents report already carrying multiple forms of debt, including:

- mobile money loans,
- business loans,
- overdraft facilities,
- car loans,
- credit cards, and
- in some cases, existing mortgages.

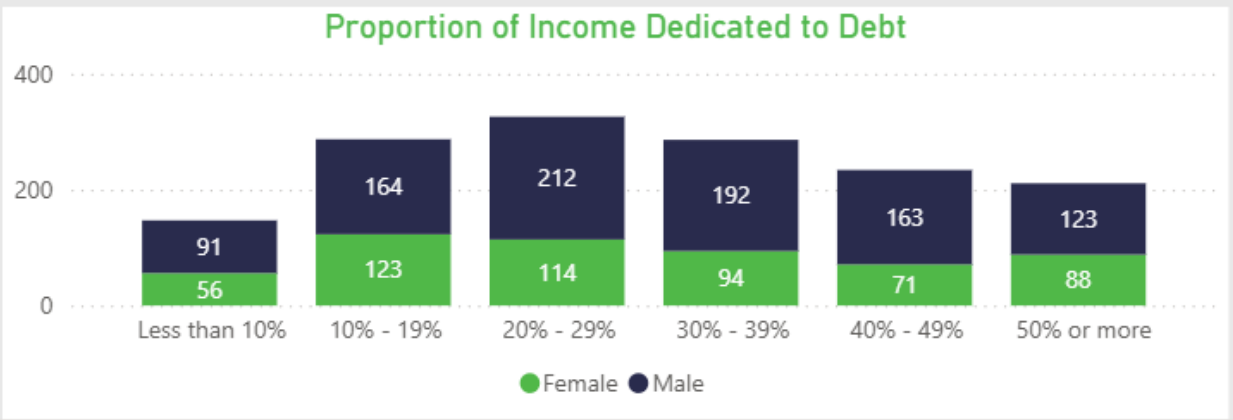


Fig 6.2.6: Proportion of Income Dedicated to Debt

The reported debt profile shows a strong concentration in short to medium term credit facilities particularly business loans, car loans, digital and mobile loans, bank overdrafts, HELB/student loans, and credit card debt with relatively limited exposure to long-tenor mortgage products. Many respondents hold multiple facilities simultaneously, indicating layered borrowing rather than reliance on a single structured loan.

This has direct implications for debt servicing capacity. Short-tenure and high-frequency repayment products typically carry higher effective costs and require faster amortisation, placing sustained pressure on monthly cash flows. As a result, a significant portion of household income is already committed to servicing existing obligations, compressing disposable income and weakening effective affordability for housing.

The data therefore suggests that housing constraints are not driven by income alone, but by elevated debt servicing burdens that crowd out the capacity to save for deposits or sustain long-term mortgage repayments.

Debt-servicing pressure is substantial. More than half of respondents allocate over 30% of monthly income to debt repayment, placing them at or beyond prudential debt-service levels typically used by lenders. This reduces borrowing headroom, even for members with stable formal employment.

Although many respondents report having started saving toward a housing down payment, savings depth remains limited. Among respondents who have saved, most report balances below KShs 100,000, which is insufficient to meet typical deposit requirements for formal housing units. This deposit constraint reinforces the gap between intention and readiness to purchase.

Tenure status provides further insight into near-term effective demand. Respondents in rental housing represent the largest group with potential to transition to ownership in the medium term. Many of these respondents earn below KShs 150,000 per month, placing them within the broad AHP target income band, but only a portion can realistically sustain a loan of meaningful size, particularly once debt servicing is accounted for.

To illustrate affordability under conservative assumptions, KMRC interest rate of 9.5%, 25-year loan tenor, and 30% instalment-to-income ratio, and assuming no other debt obligations, estimated borrowing capacity is approximately:

- KShs 50,000/month income → ~KShs 1.7 million loan
- KShs 100,000/month income → ~KShs 3.4 million loan
- KShs 150,000/month income → ~KShs 5.0 million loan

Respondents living rent-free also represent potential latent demand (often within family-owned or employer-supported housing). However, income levels in this segment also skew below KShs 100,000, implying affordability largely within the sub-KShs 3.4 million range under the same assumptions.

Overall, effective demand is concentrated between approximately KShs 1.7 million and KShs 3.4 million, with a smaller segment extending toward KShs 5 million. Housing priced above this range remains inaccessible to most respondents under prevailing income, debt, and deposit conditions.

Insights from Effective Demand

The survey confirms a clear divergence between housing aspiration and effective market demand. While many members desire homeownership and are taking steps toward it through savings, their purchasing power remains well below the price of housing that would adequately meet family needs, particularly for larger units.

Preferences show strong demand for three- and four-bedroom homes, reflecting household structure and family requirements. Yet these unit typologies are typically delivered at price points beyond affordability thresholds for most respondents, even under concessional interest rates. This mismatch between desired housing needs and feasible affordability sustains reliance on incremental construction, informal finance, and prolonged rental tenure.

The findings reinforce two critical implications:

1. Affordability, not aspiration, is the binding constraint.
2. Without scaled housing supply in realistic price bands, financing interventions alone will not unlock ownership at scale.

Insight Area	Detailed Findings
Monthly Income Distribution	The income profile of respondents is heavily skewed toward lower brackets, with most respondents earning less than KShs 100,000 per month. Very few individuals report incomes exceeding KShs 500,000. This aligns with the analysis of the full portfolio of Zamara pension holders and highlights the critical affordability challenge they face.

Other Income Sources	A majority, 73% of individuals, depend entirely on a single income source, with only 27% reporting additional income streams. This suggests that individual income as reported can be interpreted substantially as household income. This heavy reliance on one source of income increases financial vulnerability and poses a higher credit risk, particularly if employment is unstable or seasonal.
Considering Access to Loan	A significant 76% of respondents expressed interest in accessing a loan, reflecting strong potential demand for credit products, particularly in housing, personal, or small business finance. This high interest suggests that many individuals are either ready or planning to take on financial obligations in the near future.
Saved for Loan Down Payment	Savings toward a loan down payment are highest among respondents earning less than KShs 100,000 monthly, with 330 males and 212 females in this category. This shows that lower-income earners are highly motivated to save despite earning less, underscoring their desire for asset acquisition (e.g., homeownership).
Currently Have Debt	A different 76% of respondents are already servicing debt, indicating that borrowing is common among the surveyed population. While this demonstrates active credit usage, it also calls for careful assessment of borrowers' repayment capacity to prevent financial overburdening.
Debt-to-Income Ratio	The largest proportion of respondents dedicate 10%–29% of their income to debt repayment, a range generally considered financially sustainable. This indicates responsible borrowing behaviour and provides a solid foundation for lenders to extend credit with controlled risk exposure.
Gender-Based Financial Trends	Across all indicators, including income levels, loan participation, and savings, male respondents consistently show higher figures than females. Female representation is concentrated in lower income and savings categories, indicating the need for gender-sensitive financial solutions that empower women economically. *Males have higher debt representations / females are more conservative in taking debt burdens. Males consistently have higher savings amounts across all ranges, pointing to gender disparities in savings habits, income opportunities, or financial decision-making.*

Table 6.2.5: Insights from the Survey Findings

Taken together, Phase 2 results confirm that:

- Housing demand is strong, intentional, and widespread, even among lower-income formal-sector pension members.
- The dominant pathway is incremental construction, not turnkey purchase.
- Households frequently use personal loans rather than mortgages, reflecting financing constraints and product mismatch.
- Debt levels and deposit constraints suppress effective demand, even where intent is high.
- Most members' effective affordability remains within a relatively narrow band, approximately KShs 1.7M to KShs 3.4M, with only a smaller segment extending toward KShs 5M.

These findings reinforce the central conclusion of the study: housing finance and housing delivery must be designed around real income profiles and behavioural pathways, rather than around conventional mortgage assumptions.

Overall, the findings confirm a consistent pattern: formal-sector pension members have strong housing aspirations and are actively planning toward ownership, but their effective purchasing power is constrained by high deposits, debt burdens, and housing supply priced beyond realistic affordability bands. The dominant pathway is therefore incremental housing, supported by savings and smaller, flexible credit, rather than conventional mortgages for completed units. Any pension-linked housing solution that aims to scale must be designed around household income realities and member behaviour, while preserving retirement adequacy and strengthening the pipeline of genuinely affordable supply.

Building on these demand-side findings, the next section examines the institutional and regulatory environment within which pension-linked housing solutions must operate, including the constraints and opportunities on both the pension system and housing finance sides.

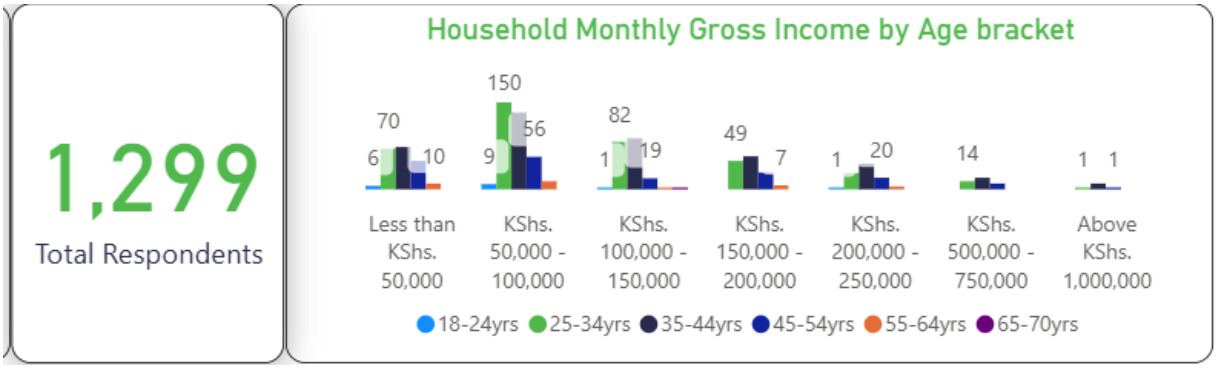


Fig 6.2.7: Household Monthly Gross Income by Age Bracket

Beyond the visible concentration in the KShs. 50,000–150,000 income bands, the distribution reveals a structural compression of upward income mobility within the prime home-buying years. The 25–44 age cohorts dominate the middle bands but thin out rapidly in higher-income categories, suggesting that for most households, income growth does not accelerate fast enough during peak family formation years to materially expand housing affordability.

This implies that the housing constraint is not merely about current income levels, but about the pace of income progression relative to property price escalation. In effect, many households enter their prime acquisition window without experiencing the income step-change typically required to transition from incremental building to formal mortgage-backed homeownership locking demand into mid-market affordability ceilings rather than enabling movement into scalable formal supply.

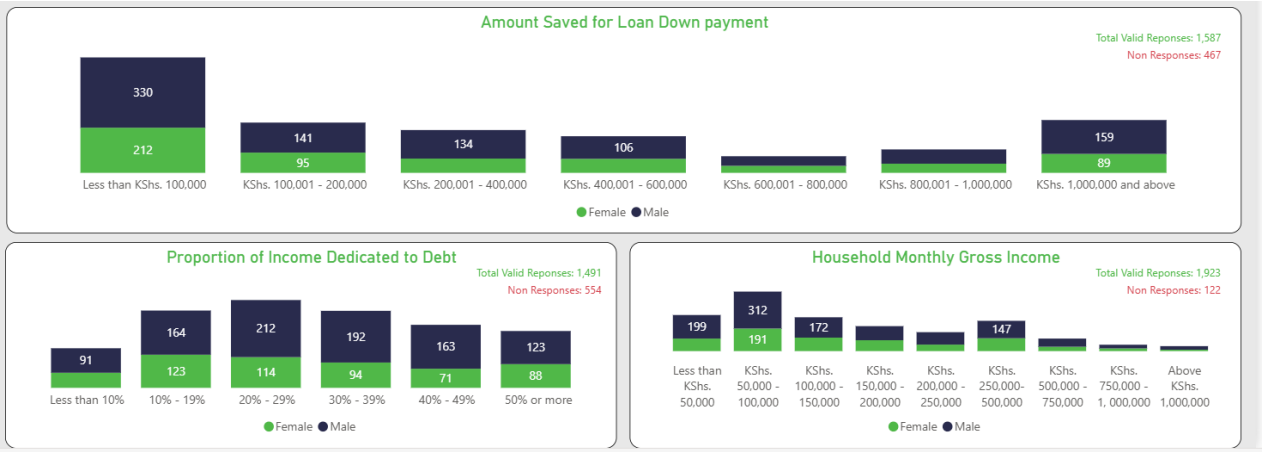


Fig 6.2.8: Amount Saved for Loan Down Payment

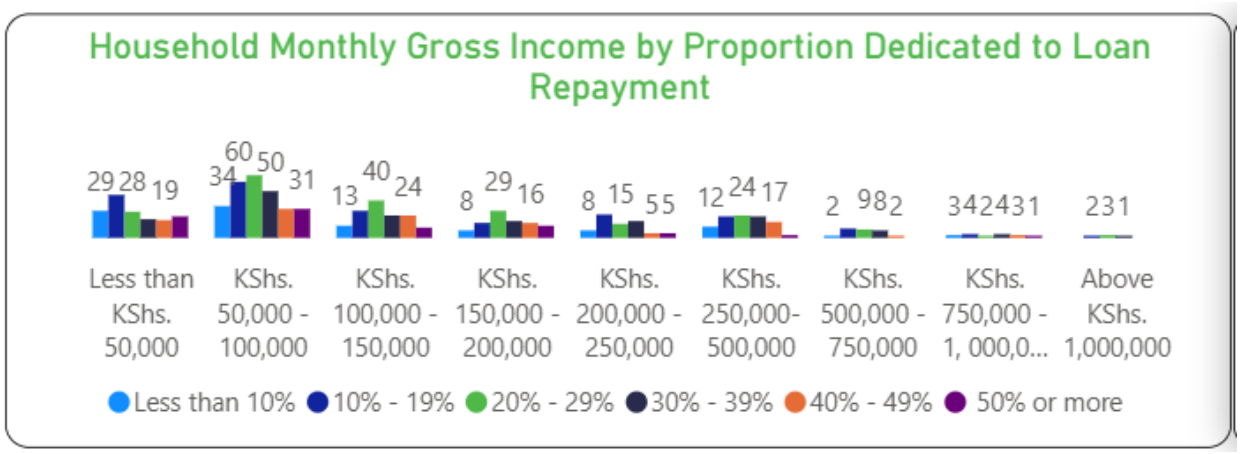


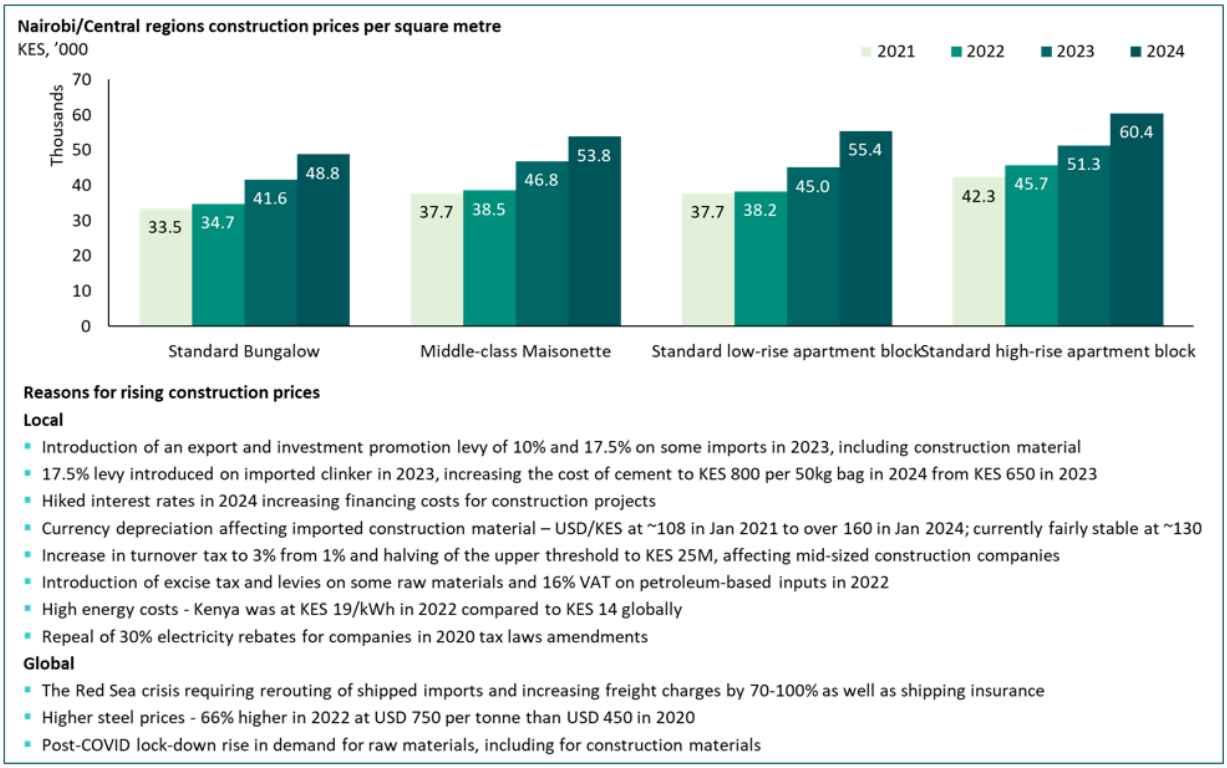
Fig 6.2.9: Household Monthly Gross Income by Proportion Dedicated to Loan Repayment

The data reveals a structurally tight affordability environment. A large share of households earn between KShs. 50,000 and 150,000 per month, yet many are already dedicating between 20% and 40% and in some cases over 50% of their income to servicing existing debt. At the same time, down payment savings remain relatively modest for most respondents, with significant clustering below KShs. 400,000. This combination of moderate incomes, high debt servicing burdens, and limited accumulated deposits materially compresses effective housing affordability. It suggests that even where households aspire to formal homeownership, their balance sheets are already stretched, limiting their capacity to absorb additional long-term mortgage commitments without substantial product redesign or price adjustment.

The rising cost of building materials is also highlighted by developers as a key issue and evident in price monitoring. A significant contributor to rising prices is the taxation framework.

Broadly, this brings the discussion back to supply. Government-delivered housing appears more affordable in part because certain cost components such as land acquisition, design structuring, professional fees, and financing costs are absorbed, subsidised, or not fully priced at commercial rates. Private sector developers, however, must account for the full value chain: land at market cost, infrastructure contributions, regulatory compliance, professional services, construction finance, and sales risk. As long as these structural cost layers remain high, formal units will struggle to align with the compressed affordability envelope observed in the data. If scale is to be achieved beyond subsidised delivery, the cost of housing production itself must fall through faster approvals, serviced land release, lower financing costs, regulatory efficiency, and productivity gains in construction. Without reducing delivery costs across the private value chain, affordability interventions on the demand side will continue to face binding limits.

Figure 26: Construction Prices in Nairobi and Central Regions, 2021 - 2024



Source: Integrum Construction Annual Construction Costs Reviews, 2021 - 2024[19]

Fig 6.2 10: Nairobi/Central Region Construction Prices Per Square Meters 2021-2024

In a very recent report prepared for FSD Kenya, AIS Capital Advisors highlights the rising construction costs for different house types in Kenya over the past four years.

These rising costs, whether for standard bungalow, low or high-rise apartment or middle-class maisonette, have a significant impact on affordability.

The Kenya Property Developers Association (KPDA) has repeatedly noted that developers may be required to obtain as many as 30 separate approvals before a housing project can break ground. These approvals cut across multiple national and county institutions and typically include land use and zoning confirmations, development permission, environmental impact assessments National Environment Management Authority (NEMA), structural and architectural plan approvals, fire and public health clearances, utility connection consents, National Construction Authority (NCA) registration, and ultimately occupation certificates, among others.

The core issue is not simply the volume of approvals, but the lack of integration and coordination between approving authorities. Many processes operate sequentially rather than in parallel, documentation requirements may overlap, and timelines are often uncertain. This fragmentation increases administrative burden, extends project preparation periods, and introduces material holding costs particularly on land and construction finance. For private sector developers relying on commercial funding, time delays directly raise interest costs and risk exposure. These accumulated costs are ultimately priced into the final housing unit, contributing to the affordability pressures observed on the demand side.

Both these charts are interesting and don't seem fully discussed above

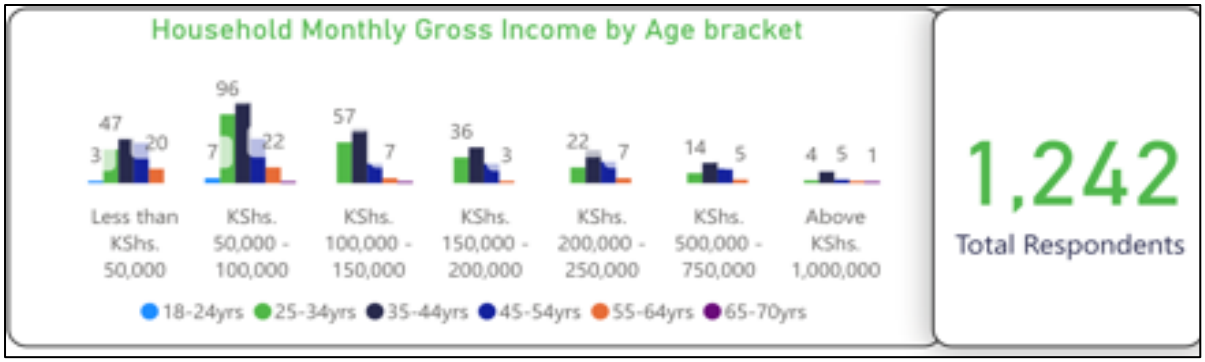


Fig 6.2 11: Household Monthly Gross Income by Age Bracket

Can Zamara cross link who has how much in debt, how much they have saved for a down payment and their income? Overall, we never received any cross analysis.

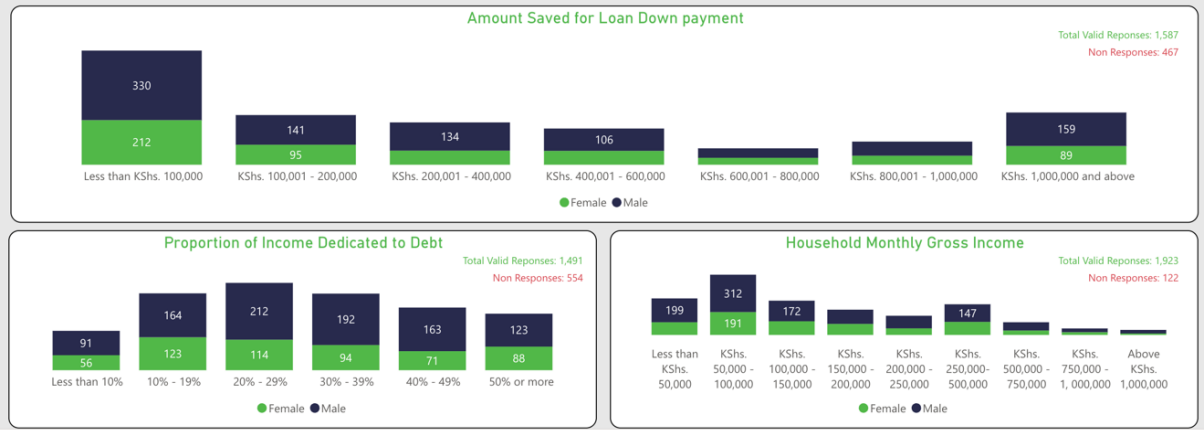


Fig 6.2 12: Amount Saved for Loan Down Payment

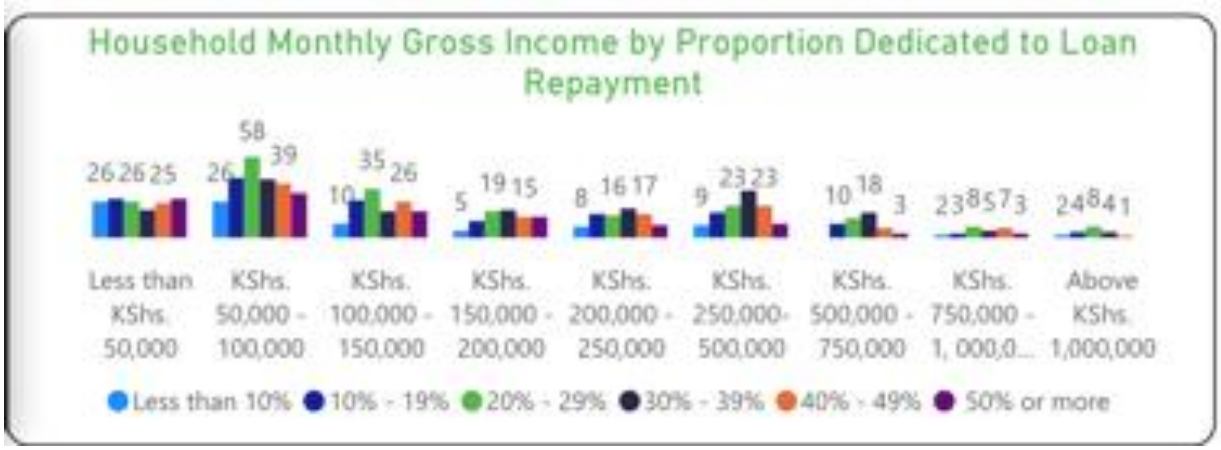
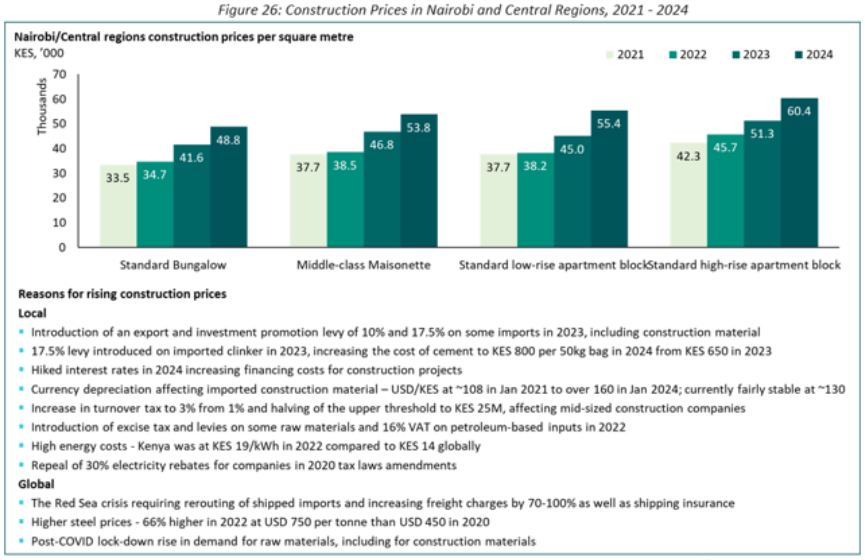


Fig 6.2.13: Household Monthly Gross Income by Proportion Dedicated to Loan Repayment

The rising cost of building materials is also highlighted by developers as a key issue – and evident in price monitoring. A significant contributor to rising prices is the taxation framework.

Figure 26: Construction Prices in Nairobi and Central Regions, 2021 - 2024



Source: Integrum Construction Annual Construction Costs Reviews, 2021 - 2024[19]

In a very recent report prepared for FSD Kenya, AIS Capital Advisors highlights the rising construction costs for different house types in Kenya over the past four years. These rising costs, whether for standard bungalow, low or high-rise apartment or middle-class maisonette, have a significant impact on affordability.

Source: AIS Capital Advisors, Analysis prepared for FSD Kenya (2025) . Data sourced from: https://integrum.co.ke/construction-costs-in-kenya-2024/

Fig 6.2.14: An outlook of rising cost of building materials- KPDA has also reported severally that developers need up to 30 different uncoordinated approvals.

6.4. Using Pension Collateral to Improve Housing Affordability: Numeric Examples and Illustrations

Access to housing finance in Kenya remains constrained by high property prices relative to household incomes, elevated mortgage interest rates, and the significant liquidity required to meet down payment requirements. To address some of these barriers, the 2009 Kenyan Pension (Mortgage Loans) Regulations allow pension scheme members to assign up to 60% of their accrued retirement benefits as collateral for a mortgage loan.

Importantly, this provision does not permit withdrawal of pension savings at the time of purchasing a home. Instead, the pension scheme provides an undertaking to the lender that, in the event of borrower default and where the property sale proceeds are insufficient to clear the outstanding loan balance, the lender may recover the remaining balance from the assigned portion of the member's pension benefits.

This structure improves lender security while protecting retirement savings, potentially enabling borrowers to:

- meet deposit requirements more easily
- improve loan approval chances
- access lower interest rates due to reduced credit risk

To illustrate the practical implications of this mechanism, the following scenarios analyse mortgage affordability for a typical Kenyan formal-sector employee as illustrated below:

Kenya PAYE Tax Bands (Monthly)
PAYE= (24,000×10%) +(min (Gross,32,333) −24,000) ×25%+(Gross−32,333) ×30%−2,400
PAYE=0.10×24,000+0.25× max (0, min (Gross,32,333) −24,000) +0.30×max (0, Gross−32,333) −2,400
Total Tax Before Relief = 2,400 +
2,083 + 26,300 = **30,783**
Band 1: 24,000 × 10% = **2,400**
Band 2: (32,333 − 24,000) × 25% = **2,083**
Band 3: (120,000 − 32,333) × 30% = **26,300**
Total = 2,400 +2,083 +26,300 = 30,783

Income Range (KES)	Rate	Band
0 – 24,000	10%	1
24,001 – 32,333	25%	2
Above 32,333	30%	3

Variable	Formula / Calculation	Value
Gross monthly salary	Assumed income	120,000
PAYE	Estimated effective tax	28,383
Affordable Housing Levy (AHP)	1.5% × 120,000	1,800
NSSF	Tier I	420
	Tier II	1,740
	Total Deduction	2,160
SHIF	Estimated contribution	3,300
Total Statutory Deductions	Sum of above	35,643
Net Salary (after PAYE, SHIF, NSSF, AHP)	120,000 −35,643	84,357
Mortgage lenders typically cap repayments at about one-third of net income	85,005 × 0.33 (one-third of net income)	27,838
Pension savings	Accumulated retirement savings	1,000,000
Assignable pension collateral	1,000,000 × 60%	600,000
House price	Market Assumption	6,000,000
Minimum deposit **(10%)**	6,000,000 × 10%	600,000
Mortgage required	6,000,000 – 600,000	5,400,000
Assumed Commercial Market	Mortgage Rate	**14%**
KMRC	via Kenya Mortgage Refinance Company	**9.5%**

Table 6.4.1: Numerical examples and illustration of affordable housing mechanism of a Kenyan worker

Mortgage Calculation Formula

The standard mortgage payment formula is used:

$$M = P \times \frac{r(1+r)^n}{(1+r)^n - 1}$$

*Where: **M** = Monthly repayment, **P** = Loan principal, **r** = Monthly interest rate, **n** = Total number of payments, **Loan tenure** = 20 years (240 Months).*

Scenario 1: Pension Used to Cover Entire Down Payment

In this scenario, the borrower uses the maximum pension collateral **(KES 600,000)** to meet the required deposit. The borrower therefore does not need to provide cash savings.

Item	Commercial Market (14%)	KMRC Market (9.5%)
Net Monthly Salary	84,357	84,357
House Price	6,000,000	6,000,000
Required Down Payment (10%)	600,000	600,000

Pension Savings Available	1,000,000	1,000,000
Maximum Pension Assignable (60%)	600,000	600,000
Cash Contribution	0	0
Down Payment Composition	600,000 Pension	600,000 Pension
Mortgage Amount	5,400,000	5,400,000
Interest Rate	14%	9.50%
Estimated Monthly Repayment (PMT)	**75,493**	**56,738**
Mortgage as % of Net Salary	**89%**	**67%**
Affordable?	No	No

Table 6.4.2: Pension used to cover 10% of the entire down payment

This structure eliminates the deposit barrier, which is one of the biggest obstacles preventing households from accessing mortgage financing.

However, under commercial market conditions, the repayment burden becomes extremely high relative to income.

With KMRC refinancing, the monthly repayment drops significantly, making the mortgage closer to affordability thresholds used by lenders.

Key Insight: Pension collateral solves the deposit challenge, but interest rates determine real affordability.

Scenario 2: Blended Deposit (Cash Savings + Pension Collateral)

Here the borrower contributes KES 300,000 in cash and assigns KES 300,000 from pension savings to meet the deposit requirement.

Item	Commercial Market (14%)	KMRC Market (9.5%)
Net Monthly Salary	84,357	84,357
House Price	6,000,000	6,000,000
Required Down Payment (10%)	600,000	600,000
Pension Savings	1,000,000	1,000,000
Pension Collateral Used	300,000	300,000
Cash Savings Contribution	300,000	300,000
Down Payment Composition	300k Pension + 300k Cash	300k Pension + 300k Cash
Mortgage Amount	5,400,000	5,400,000
Interest Rate	14%	9.50%
Estimated Monthly Repayment (PMT)	**75,493**	**56,738**
Mortgage as % of Net Salary	**89%**	**67%**
Affordable?	No	No

6.4.3: Blended deposit ((Cash Savings + Pension Collateral)

This blended approach reduces the amount of pension savings exposed to mortgage risk.

While the loan size remains the same, this structure balances housing access with retirement protection.

Key Insight: Using pension savings partially ensures borrowers maintain retirement buffers while still unlocking housing finance.

Scenario 3: Pension Used to Reduce Mortgage Size

In this scenario, the borrower has:

- Cash savings: KES 300,000
- Pension collateral: KES 600,000

Because the pension collateral exceeds the minimum required deposit, the lender may allow the borrower to reduce the mortgage size.

Item	Commercial Market (14%)	KMRC Market (9.5%)
Net Monthly Salary	84,357	84,357
House Price	6,000,000	6,000,000
Required Down Payment (10%)	600,000	600,000
Pension Savings	1,000,000	1,000,000
Pension Collateral Used	600,000	600,000
Cash Savings Contribution	300,000	300,000
Total Deposit Contribution	900,000	900,000
Mortgage Amount	5,100,000	5,100,000
Interest Rate	14%	9.50%
Estimated Monthly Repayment (PMT)	**64,169**	**48,228**
Mortgage as % of Net Salary	**76%**	**57%**
Affordable?	No	Marginally Unaffordable / Highly Stretched

6.4.4: Pension Used to Reduce Mortgage Size

Here the borrower contributes more than the minimum deposit requirement, reducing the loan size.

This leads to:

- Lower monthly repayments
- Reduced long-term interest costs
- Improved mortgage qualification likelihood

Key Insight: Pension savings can improve affordability both by covering deposits and reducing loan size.

Scenario 4: Pension Collateral Used to Lower Interest Risk

In this scenario, the borrower assigns pension collateral to strengthen the lender's security position.

Because the total collateral base increases, lenders may offer preferential pricing or lower interest risk.

Item	Commercial Market (14%)	KMRC Market (9.5%)
Net Monthly Salary	84,357	84,357
House Price	6,000,000	6,000,000
Required Down Payment (10%)	600,000	600,000
Pension Savings	1,000,000	1,000,000
Pension Collateral Used	600,000	600,000
Cash Contribution	300,000	300,000
Total Collateral Coverage	900,000	900,000
Mortgage Amount	5,100,000	5,100,000
Interest Rate	14%	9.50%
Estimated Monthly Repayment (PMT)	**75,493**	**56,738**

Mortgage as % of Net Salary	**89%**	**67%**
Affordable?	No	No

Table 6:4.5: Pension Collateral Used to Lower Interest Risk

When pension collateral is layered with property collateral, the lender's risk exposure declines.

This stronger collateral structure can:

- improve mortgage approval probability
- reduce lender risk
- support lower interest structures under refinance systems.

Key Insight: Pension collateral does not need to be withdrawn; it acts as a contingent guarantee that strengthens mortgage lending structures. While pension collateral removes the deposit constraint, sustainable mortgage access depends heavily on lower long-term interest rates, particularly through institutions like the Kenya Mortgage Refinance Company.

Scenario 5: Borrower With Existing Debt

In this scenario, the borrower earns **KES 120,000 gross salary**, with an estimated **net monthly salary of KES 84,357**. However, the borrower already has **existing monthly debt obligations of KES 20,000** from SACCO loans, personal credit facilities, or mobile lending platforms.

Most lenders in Kenya apply a **Debt Service Ratio (DSR) of 40% of net income** when assessing mortgage affordability.

This means:

Maximum affordable repayment
= 40% × 84,357
= **KES 13,742**

After deducting existing loan obligations:

Available repayment capacity
= 34,842− 20,000
= **KES 14,842**

This significantly constrains the size of the mortgage the borrower can qualify for.

Even when pension collateral is available, **income affordability remains the binding constraint**.

Item	Commercial Market (14%)	KMRC Market (9.5%)
Net Monthly Salary	84,357	84,357
Existing Monthly Debt	20,000	20,000
Max Allowable Debt (40%)	33,743	33,743
Available Repayment Capacity	13,742	13,742
House Price	6,000,000	6,000,000
Required Down Payment (10%)	600,000	600,000
Pension Savings	1,000,000	1,000,000
Pension Collateral Used	600,000	600,000
Cash Contribution	300,000	300,000
Total Collateral Coverage	6,600,000	6,600,000
Mortgage Amount	5,100,000	5,100,000
Interest Rate	-	-
Estimated Monthly Repayment (20 yrs) (PMT)	**75,493**	**56,738**

Mortgage as % of Net Salary	**89%**	**67%**
Mortgage vs Available Capacity	**75,493 vs 13,742**	**56,738 vs 13,742**
Affordable?	No	No

Table 6.4.6: Borrower With Existing Debt

This scenario highlights a critical structural issue in Kenya's housing finance market.

Even though the borrower has:

- Pension savings of KES 1,000,000
- Collateral coverage of KES 6.6 million
- The ability to meet the deposit requirement

the mortgage still fails affordability tests because of existing debt obligations.

The borrower can only afford KES **13,742** monthly repayments, yet the mortgage requires:

- KES **75,493** at commercial rates
- KES **56,738** under KMRC refinancing

Both exceed the borrower's capacity.

Key Insight: Pension-backed collateral solves security and deposit constraints but does not increase borrower income.

For many middle-income households in Kenya, the binding constraint is repayment capacity rather than collateral availability.

This explains why uptake of pension-backed mortgages has remained limited, despite the regulatory framework allowing up to 60% of accrued pension benefits to be assigned as collateral under the Retirement Benefits (Mortgage Loans) Regulations, 2009.

Scenario 6: Incremental Housing Approach

An alternative pathway widely observed in Kenya is incremental housing development.

Instead of financing a KES 6,000,000 house through a single mortgage, the household develops the home in phases.

This reduces the initial debt burden and aligns housing investment with income growth over time.

Typical development stages may include:

1. Land acquisition
2. Foundation and slab
3. Walls and roofing
4. Interior finishing

Pension-backed collateral can support financing at different stages of the construction process.

Item	Commercial Market (14%)	KMRC Market (9.5%)
Net Monthly Salary	84,357	84,357
House Price (Final Value)	6,000,000	6,000,000
Initial Land Purchase(Land that exists)	700,000	700,000
Pension Savings	1,000,000	1,000,000

Pension Collateral Used	300,000	300,000
Cash Contribution	200,000	200,000
Initial Loan Required	500,000	500,000
Mortgage Amount	4,800,000	4,800,000
Interest Rate	14%	9.50%
Estimated Monthly Repayment (20 yrs) (PMT)	**60,394**	**45,391**
Repayment as % of Net Salary	**72%**	**54%**
Affordability Status	No	Marginally Unaffordable / Highly Stretched

Table 6.4.7: Incremental Housing Approach

Under the incremental housing pathway, the borrower avoids large mortgage exposure in early stages.

Instead of committing to a KES **5.4** million mortgage immediately, the household:

- purchases land
- builds gradually
- finances construction in stages.

This significantly reduces repayment pressure.

Monthly repayments of KES **60,394–45,391** fall well within affordability limits.

Over time, the borrower may use:

- salary increases
- savings accumulation
- SACCO financing
- pension-backed guarantees to complete construction.

Key Insight: Incremental housing aligns more closely with the cash-flow realities of Kenyan households, reducing financial risk and improving housing accessibility.

Scenario 7: Higher Pension Savings and Reduced Mortgage Size

A stronger scenario emerges when the borrower has larger accumulated pension savings, for example KES **2,000,000** instead of KES **1,000,000**.

Under the 2009 pension regulations, up to 60% of accrued benefits can be assigned as collateral.

Assignable pension collateral
= 60% × 2,000,000
= KES **1,200,000**

This allows the borrower to increase the effective deposit, thereby reducing the mortgage amount.

Item	Commercial Market (14%)	KMRC Market (9.5%)
Net Monthly Salary	84,357	84,357

House Price	6,000,000	6,000,000
Required Down Payment (10%)	600,000	600,000
Pension Savings	2,000,000	2,000,000
Pension Collateral Used	1,200,000	1,200,000
Cash Contribution	300,000	300,000
Total Deposit Contribution	1,500,000	1,500,000
Mortgage Amount	4,500,000	4,500,000
Interest Rate	14%	9.50%
Estimated Monthly Repayment (20 yrs) (PMT)	**56,620**	**42,554**
Mortgage as % of Net Salary	**67%**	**50%**
Affordable?	No	No

Table 6.4.8: Higher Pension Savings and Reduced Mortgage Size

Higher pension savings significantly improve mortgage viability.

The borrower reduces the mortgage from:

KES 5.4 million → KES 4.5 million

This leads to:

- lower monthly repayments
- reduced lifetime interest costs
- improved qualification under affordability rules.

Under KMRC refinancing, repayments fall to KES **42,554**, which is close to the 50% affordability threshold.

Key Insight: Larger pension balances can meaningfully improve housing access, particularly when combined with lower-cost refinancing mechanisms such as KMRC.

This illustrates the structural role of pension savings in supporting long-term housing finance development.

7. OVERVIEW OF KENYA'S PENSION SYSTEM

Kenya's pension system has expanded significantly over the past decade, supported by increasing formal-sector participation, stronger regulatory oversight, and the continued maturation of retirement savings institutions. Total industry assets under management have grown steadily, reinforcing pensions as one of Kenya's largest pools of long-term domestic capital.

The national retirement benefits landscape is broadly structured across three pillars:

1. Zero Pillar, comprising non-contributory social assistance programmes that support older persons outside formal savings systems.
2. First Pillar, consisting of mandatory contributions to the National Social Security Fund (NSSF).
3. Second Pillar, comprising regulated occupational and individual retirement schemes, including umbrella funds and employer-sponsored arrangements supervised by the Retirement Benefits Authority (RBA).

Despite asset growth, pension coverage remains structurally constrained by Kenya's labour market realities. A large share of employment remains informal, and pension participation is concentrated among formally employed workers. This limits the extent to which pensions can serve as a universal lever for housing finance, particularly for lower-income households outside payroll-based savings structures.

In addition, pension fund portfolios remain largely concentrated in traditional asset classes such as government securities, listed equities, and guaranteed funds. While pension regulations provide space for housing-related mechanisms, through both member-level lending structures and institutional investment in housing-linked assets, utilisation remains modest. This reflects a combination of prudential caution, limited affordable housing investment pipelines, and affordability constraints that reduce viable demand for long-term mortgage products.

Overall, Kenya's pension system has growing scale and long-term investment horizons, but converting this capacity into broad-based housing outcomes remains constrained by both market and structural conditions.

The expansion of retirement savings has been shaped most visibly by reforms under the NSSF Tier I and Tier II framework. Understanding these reforms is essential for assessing where pension-linked housing potential exists, and where it does not.

7.1 NSSF Tier I and Tier II Reforms: Implications for Pensions and Housing Accessibility in Kenya

The introduction of the Tier I and Tier II contribution structure under the NSSF Act, 2013 represents one of the most significant structural reforms in Kenya's retirement savings landscape. By distinguishing between basic social protection and earnings-linked retirement savings, the framework has strengthened long-term pension accumulation and clarified where housing-related utilisation of pension assets may be feasible, without weakening retirement adequacy.

Overview of the Tier I and Tier II Structure

Under the reformed NSSF framework, mandatory pension contributions are structured into two tiers based on earnings thresholds.

Tier I – Mandatory Basic Pension Component

Tier I applies to contributions up to the lower earnings limit and functions primarily as a **basic social protection layer**. Its core purpose is to establish a minimum retirement income floor rather than facilitate wealth accumulation. Because of this, Tier I has limited relevance for housing-linked financing and is generally not suited for collateralisation or structured housing interventions.

Tier II – Mandatory Earnings-Related Pension Component

Tier II applies to pensionable earnings above the Tier I threshold, up to the Upper Earnings Limit (UEL) prescribed under the NSSF Act. While Tier I is structured primarily as a basic social security pillar, Tier II is designed to deepen retirement adequacy by enabling higher long-term accumulation linked to income levels. Subject to regulatory arrangements, Tier II contributions may either be retained within NSSF or contracted out to registered private occupational pension schemes.

From a housing finance perspective, Tier II is materially more relevant than Tier I. Because contributions are earnings-related and accumulate over time at scale, Tier II balances grow faster and create a more meaningful capital base. This makes them more suitable for pension-backed lending structures, collateral

assignment mechanisms, and, at a systemic level, institutional portfolio allocation into housing-linked instruments such as REITs or development-backed debt—subject to Retirement Benefits Authority (RBA) rules, scheme trust deeds, and prudential safeguards. (See section: 6.4)

Implications for Housing Accessibility

The Tier I and Tier II reforms have increased the pool of pension assets in the formal sector and strengthened the institutional base available for long-term financing solutions. In principle, this expands Kenya's capacity to use pension savings to support housing outcomes through:

- Member-level mechanisms, such as pension-backed guarantees and collateral structures; and
- Supply-side investment, including regulated housing-linked investments and long-term capital vehicles aligned to affordable housing delivery.

However, the reforms do not automatically translate into housing access. Many contributors remain clustered within lower income bands, limiting the scale of accumulated balances. As a result, even where regulatory flexibility exists, the binding constraint remains affordability, particularly the cost of housing units relative to household incomes and debt burdens. For this reason, efforts to make the supply more affordable as outlined above are as important as structuring financial products for the demand side.

As pension assets grow, the impact of the system on housing also depends on how pension funds invest. Asset allocation patterns therefore provide a practical indicator of the extent to which pension capital is positioned to support housing development and housing finance.

7.2 ZEP-RE CRI vs Pension Collateral: Risk Tools, Not Affordability Solutions

Kenya's pension-backed mortgage framework converts retirement savings into contingent collateral, not cash. The funds remain invested and are only accessed after default to cover residual loss. This strengthens lender security and improves borrower creditworthiness, but it does not expand affordability income tests, interest rates, and repayment capacity remain the binding constraints.

The Collateral Replacement Indemnity (CRI) from ZEP-RE takes a different approach by transferring High-Loan-to-Value (LTV) risk to a reinsurer. However, its real impact is diluted by key limitations: the cost is often passed to borrowers, coverage is short-term relative to long mortgage tenors, and it does not improve repayment capacity. As a result, lenders' risk appetite and underwriting standards change only marginally.

At the system level, the Retirement Benefits Authority allows pension funds to invest significantly in real estate and housing-linked assets, creating a pathway to finance housing supply. Yet uptake remains low due to limited bankable opportunities and conservative investment behaviour.

The bottom line is that both mechanisms are risk tools, not affordability solutions. They strengthen security and redistribute risk, but without addressing income constraints and housing supply, their impact on expanding homeownership remains limited.

7.3 Asset Allocation Patterns in Kenyan Pension Funds

Asset allocation decisions determine how effectively pension savings meet retirement obligations while contributing to broader economic development objectives. In Kenya, pension fund portfolios reflect a deliberate balance between capital preservation, income stability, liquidity needs, and regulatory limits. These allocation patterns shape the extent to which pension capital can support housing outcomes, both through housing finance for members and through investment in housing supply.

Current Asset Allocation Profile

Kenyan pension funds remain predominantly invested in traditional, lower-risk asset classes. This reflects both trustee prudence and the structural depth of domestic capital markets.

Conservative Asset Allocation and Limited Housing Exposure in Kenya's Pension Sector

Kenyan pension funds remain predominantly allocated to traditional, lower-risk asset classes, reflecting trustee prudence, regulatory limits, and the structure of domestic capital markets. As of 2024, total retirement benefits assets exceed **KShs 2 trillion**, with **government securities accounting for approximately 50–55%** of total assets, making them the single largest allocation category.

Quoted equities typically represent **8–12%** of portfolios, while **immovable property (direct real estate holdings)** accounts for roughly **10–15%**. Guaranteed funds and fixed deposits also form a meaningful share, reinforcing the system's conservative bias. Allocations to alternative assets such as private equity, infrastructure, and REITs remain comparatively modest, generally in the low single-digit percentages, despite gradual growth in recent years.

Importantly, the regulatory framework has evolved to allow greater diversification. The Retirement Benefits Authority (RBA) amended investment regulations to expand the range of permissible asset classes. These reforms introduced and clarified alternative investment categories, including **property and Real Estate Investment Trusts (REITs)**, with an aggregate allocation limit of up to **30%** of scheme assets. In addition, the **2020 regulations formally defined infrastructure as a distinct asset class**, permitting pension schemes to allocate up to **10%** of total assets to infrastructure investments.

While these expanded limits create regulatory headroom for increased exposure to housing-linked and infrastructure-backed instruments, actual allocations remain well below the permissible ceilings. This gap reflects factors such as limited depth of investable projects, liquidity considerations, governance caution, and risk-adjusted return expectations. As a result, despite regulatory space to mobilise pension capital toward residential development and housing finance ecosystems, the majority of pension assets continue to be concentrated in government securities and traditional instruments.

The implication is not regulatory constraint, but market readiness. The framework now allows meaningful participation in property, Real Estate Investment Trusts (REITs), and infrastructure including housing-enabling investments but the supply of scalable, bankable, and trustee-compliant housing-linked vehicles remains limited. Unlocking pension capital for housing therefore depends less on regulatory reform and more on developing investable structures that meet fiduciary, liquidity, and return requirements.

Government securities

Government bonds and Treasury bills constitute the largest share of pension portfolios. These instruments provide predictable income, high liquidity, and strong regulatory comfort. Their dominance also reflects the limited availability of scalable alternative assets that meet pension funds' risk and governance requirements.

Quoted equities

Listed equities are typically the second-largest allocation, offering long-term growth potential and partial inflation protection. However, exposure remains moderated by market volatility and valuation risk, especially where schemes must manage short- and medium-term liquidity needs.

Corporate debt and fixed income instruments

Corporate bonds and other non-sovereign fixed income assets offer yield enhancement relative to government securities but usually represent a smaller portion of portfolios. This reflects constrained issuer diversity, limited domestic market depth, and credit risk management considerations.

Property and real estate investments

Property allocations, including direct real estate holdings and REIT exposures, remain modest relative to total assets. Where pension real estate exposure exists, it is often concentrated in commercial assets (offices, retail, and mixed-use developments) rather than affordable or owner-occupied housing. This reflects both market structure and the risk-return characteristics of housing delivery at scale.

Alternative investments

Allocations to infrastructure, private equity, and other alternatives remain limited, despite their potential diversification benefits. Uptake is constrained by governance complexity, longer investment horizons, valuation uncertainty, and limited track records or investable pipelines in the local market.

Drivers of Conservative Allocation Patterns

Several structural factors reinforce the concentration of pension assets in traditional instruments:

- Regulatory prudence and portfolio limits, which promote diversification, capital safety, and liquidity discipline.
- Fiduciary risk management, with trustees prioritising certainty of returns and protection of member benefits.
- Market constraints, including a limited pipeline of investable housing and infrastructure assets structured to pension standards.
- Liquidity requirements, driven by benefit payments, exits, and scheme-level cashflow obligations.

Collectively, these constraints reinforce a cautious investment posture, even as pension assets continue to expand in size and maturity.

Implications for Affordable Housing Finance and Supply

The prevailing asset allocation profile constrains the ability of pension funds to influence affordable housing outcomes in three major ways.

First, pension exposure to real estate remains skewed toward commercial real estate and higher-income housing market segments, leaving affordable housing undercapitalised partly as the risk is perceived to be high. Second, there is limited integration between pension investment strategy and the housing needs of contributors, meaning long-term savings often do not translate into housing access for members. Third, concentrated exposure to government securities introduces fiscal and interest-rate concentration risks, especially in periods of tightening macroeconomic conditions.

Importantly, these constraints are not primarily driven by regulatory prohibition. Instead, they reflect risk-return alignment challenges and limited market-ready vehicles capable of absorbing pension capital in affordable housing delivery.

Scope for Gradual Diversification Within Existing Mandates

Kenya's regulatory framework provides sufficient latitude for measured diversification into housing-linked instruments, provided that risk, governance, liquidity, and valuation standards are appropriately structured and managed. While direct, project-level exposure to residential development can be complex for pension schemes given construction risk, absorption uncertainty, and illiquidity participation becomes more feasible when channelled through structured, pooled vehicles.

Historically and globally, pension exposure to housing has been more compatible through instruments such as Real Estate Investment Trusts **(REITs), housing or infrastructure bonds, and blended finance vehicles** that combine public, private, and development capital. Blended finance structures, in particular, can enhance risk-adjusted returns by layering concessional capital, guarantees, or first-loss tranches alongside institutional investment. This helps de-risk early-stage development exposure while preserving fiduciary safeguards required by trustees.

. At the same time, it is important to clearly separate the investment role of pension funds from the individual use of pension savings to access housing. Pension-backed housing mechanisms that use collateralisation or guarantees can be implemented without significantly changing how pension fund assets are invested, because they function through members' benefit entitlements rather than by restructuring the fund's portfolio. This highlights that effective pension–housing linkages depend not only on investment policy, but equally on appropriate product design and the readiness of the financial market.

In this context, the opportunity is not for pension schemes to become direct developers, but to participate in well-governed, professionally managed, and diversified vehicles that align long-term capital with long-duration

housing assets. The regulatory space exists; the priority is structuring investable instruments that meet pension fund standards for return predictability, transparency, and liquidity management.

7.4 Kenya's Pension Capital Potential

Kenya's pension industry represents one of the country's largest and most stable pools of long-term institutional capital. With assets exceeding KShs 2.25 trillion by end-2024 and close to four million formal contributors, pension funds occupy a strategic position at the intersection of household savings, capital markets, and national development priorities.

Pension savings serve a dual role. At the household level, they are deferred income intended to secure retirement adequacy and resilience. At the macroeconomic level, they constitute patient capital that can be allocated to long-lived assets such as housing and infrastructure, assets whose investment horizons align naturally with long-term pension liabilities. This duality raises an important policy question: how can pension capital contribute to housing access and delivery without undermining retirement security?

The affordability evidence in this study shows that demand for homeownership is concentrated in the low- to lower-middle income segments, where most formal sector contributors earn below KShs 100,000 per month. Yet much of Kenya's formal housing supply remains priced above KShs 4 million, placing it outside the effective affordability range of most pension contributors. As a result, pension-linked housing tools have not translated into large-scale homeownership gains, largely because the housing stock being delivered remains misaligned with the income profile of savers.

Unless housing supply expands meaningfully within the KShs 1–4 million range, which requires simplification and support in the enabling environment particularly for urban housing delivery, or through flexible and incremental pathways such as serviced plots, core housing units, and phased construction for peri-urban / rural delivery, pension-supported housing finance will remain marginal in both uptake and impact.

The question is therefore not whether pension funds can support housing in principle, but what the regulatory framework permits in practice, and how these tools can be implemented at scale with appropriate safeguards.

7.5 What Pension Funds Can and Cannot Do Under the Current Framework

Kenya's pension regulatory framework provides pension schemes with several channels through which they may support housing and housing finance. These provisions create opportunities for both household-level access to housing finance and institutional investment in housing-related assets. However, the framework also imposes important constraints designed to protect retirement benefits, market integrity, and fiduciary obligations.

What Pension Funds Are Permitted to Do

Under the current framework, pension funds may:

i. Support pension-backed housing loans (collateral-based mechanism) - Members may pledge up to 60% of accrued pension benefits as collateral for a housing loan obtained from a licensed financial institution. The loan may be used to purchase, construct, or improve a residential home. Importantly, this is a non-withdrawal mechanism, pension savings remain invested and are only callable in the event of default.

ii. Invest in housing-related asset classes, including:

- direct real estate investments and development projects (within prudential limits);
- listed and unlisted REITs;
- infrastructure bonds and PPP-linked investments supporting housing enabling infrastructure; and
- approved private equity and regulated collective investment vehicles with housing exposure.

iii. Participate in blended finance vehicles - Pension funds may co-invest alongside development finance institutions, banks, and government agencies in vehicles structured to support housing delivery and infrastructure while mitigating risk through layered capital.

What Pension Funds Are Not Permitted to Do

At the same time, pension funds are constrained in several important ways. They may not:

- Provide direct retail housing loans to members (lending must be intermediated through banks or other licensed institutions);
- Permit direct withdrawals from pension savings for housing purposes (following the High Court's quashing of the 2020 regulations);
- Invest directly in informal or unregulated housing finance entities, such as SACCO loan books, unless structured through regulated instruments.

These parameters define both the potential and the limits of pension involvement in housing. In effect, Kenya's current framework emphasises collateralisation and institutional investment over withdrawal-based approaches.

Despite these provisions, pension–housing linkages have not scaled. The limited impact reflects less a regulatory prohibition and more a set of structural constraints across affordability, product design, and housing supply.

7.6 Why Pension-Backed Housing Tools Have Had Limited Impact

Despite the availability of pension-backed lending since 2009 (see section:6.4), uptake has remained extremely low. This is not due to the absence of regulation, but rather to a misalignment between product design, affordability realities, and housing delivery models.

Demand-Side Constraints (End-User Finance)

In theory, pension-backed lending could unlock housing access for millions of contributors. In practice:

- Most pension members cannot afford conventionally priced housing units.
- Mortgage-style products remain out of reach for households earning below KShs 100,000 per month.
- Without cheaper, smaller, or incremental housing options, pension-backed lending primarily benefits higher-income contributors.

As a result, the tool has failed to address the housing needs of the majority of pension savers.

Supply-Side Constraints (Investment in Housing Delivery)

On the investment side:

- Pension funds have concentrated heavily on commercial real estate rather than affordable residential housing.
- REITs demonstrate potential, as seen in student housing, but affordable housing REITs remain rare.
- Few vehicles exist that target the KShs 1–4 million segment or support incremental housing supply, such as serviced plots or core housing units.

This supply mismatch reinforces the limited effectiveness of pension-linked housing finance.

The limited impact is most visible in the underutilisation of the 2009 pension-backed lending provision, which remains one of the most practical demand-side mechanisms available under a preservation-oriented regulatory approach.

7.7 Why the 2009 Pension-Backed Lending Provision Is Underutilised

The 2009 pension-backed lending provision allows members to use up to 60% of their accrued pension savings as loan collateral without withdrawing funds. In principle, this should reduce credit risk, improve loan terms, and expand access.

However, uptake has been low for three main reasons:

1. Product Design Gaps - Banks have largely offered pension-backed loans as conventional mortgages, rather than as incremental or construction-linked loans that reflect how most Kenyans actually build homes.
2. Affordability Mismatch - Most pension members earn below Kshs 100,000 per month. While a full mortgage is unaffordable, smaller staged loans could fit within their repayment capacity.
3. Awareness and Application Gaps - Many pension members, and even employers and trustees, are unaware that pension-backed lending can be used for construction or improvement, not just for purchasing finished homes.

The limited impact is most visible in the underutilisation of the 2009 pension-backed lending provision, which remains one of the most practical demand-side mechanisms available under a preservation-oriented regulatory approach.

Key Differences between Pension backed collateral 2009 and ZEP-RE - Collateral Replacement Indemnity (CRI)

Feature	Pension-Backed Collateral (2009)	ZEP-RE CRI
Nature of support	Borrower's own pension assigned as collateral	Third-party insurance guarantee
Duration	For full loan tenor	Typically, 3 years
Cost	No explicit premium	3% premium on insured portion
Retirement impact	Pension at risk only if default	Pension unaffected
Function	Credit enhancement	Risk transfer

Table 7.7 Comparison of Pension Backed Collateral 2009 and ZEP-RE CRI

8. GLOBAL LESSONS – WHAT HAS WORKED ELSEWHERE

Kenya's experience shows that pension capital has potential to support housing outcomes, but impact depends less on regulatory permission and more on whether the supporting housing finance tools and housing supply are designed around real affordability. To strengthen the relevance of Kenya's policy options, it is useful to benchmark against international evidence. Global case studies provide practical lessons on what design features have enabled pension-linked housing to scale sustainably, and what failure modes have repeatedly undermined both housing access and retirement adequacy.

International experience shows that pension-linked housing can expand homeownership and strengthen housing supply, but only where system design is deliberate, safeguards are clear, and interventions are aligned with household affordability realities. Across both advanced and emerging markets, the pension–housing linkage is often justified by the fact that housing is a core household asset and a major determinant of long-term financial security, comparable in significance (if not always scale) to retirement savings.

This creates an inherent policy trade-off. Governments and pension regulators must balance enabling households to build long-term assets, including housing, against the need to protect retirement adequacy, preserve pension fund liquidity, and maintain financial system stability.

Globally, pension-linked housing interventions fall into two broad categories:

1. Demand-side mechanisms, where pensions support households to access end-user housing finance (through collateralisation, conditional withdrawals, or structured member lending); and
2. Supply-side mechanisms, where pension funds provide institutional capital to support housing delivery through real estate investments, housing finance instruments, and enabling infrastructure.

Across jurisdictions, the effectiveness of pension-linked housing depends on three core design conditions:

- Affordability and repayment capacity, particularly interest rate levels, loan tenors, and deposit thresholds;
- Pension system structure and contribution density, which determines the depth and reliability of savings that can be mobilised; and
- Availability of investable housing pipelines, aligned to pension risk tolerance, governance requirements, and return expectations.
- The binding constraint on pension participation in housing is not regulatory permission but the availability of investable, institutional-grade pipelines aligned to trustee fiduciary standards under the Retirement Benefits Authority framework; given governance, liquidity, diversification, and capital preservation requirements, pension funds are structurally unsuited to directly finance fragmented incremental housing and are better positioned to allocate capital through intermediated vehicles such as housing debt funds, developer financing platforms, asset-backed securities, or sukuk structures similar to the Linzi Sukuk issued by Linzi FinCo that pool risk, ensure professional underwriting, and support scaled, high-density urban delivery rather than land-dependent incremental build, which cannot sustainably meet the demands of a rapidly urbanising and increasingly land-constrained population.

To frame these lessons consistently, this section first summarises the dominant global models used to link pensions to end-user housing finance (demand-side mechanisms). It then outlines the parallel role pension funds can play as institutional investors supporting housing supply (supply-side mechanisms). Finally, it consolidates cross-country insights into practical lessons that are directly relevant to Kenya's affordability profile and pension system structure.

8.1. Global Overview: Pension-Linked Housing Finance Models (Demand-Side)

The use of pensions to support end-user finance is motivated by the recognition that households should be able to deploy part of their long-term savings capacity toward acquiring a primary residence, particularly where housing is essential for retirement security. Countries have implemented demand-side interventions through four dominant models.

Pension-Backed Loans for Housing

Under this model, members use accrued retirement savings as collateral to secure housing finance, typically a mortgage or home improvement loan, from a regulated bank, SACCO, or financial institution. This approach expands access to credit for households that may lack conventional collateral, such as title deeds or high-value assets, and can reduce lender risk where pension contributions reflect stable income and savings discipline.

This mechanism is widely used in countries such as South Africa and is increasingly applied in Namibia. Ghana provides an emerging variation through a risk-sharing approach: Republic Bank, in partnership with Petra Trust, has developed a structured co-lending model designed to expand housing finance access through a controlled credit framework.

Notably, Kenya has a similar legal provision under the Retirement Benefits (Mortgage Loans) Regulations, 2009; however, uptake has remained extremely limited due to product design and operational constraints discussed in earlier sections.

Pension-Backed Loans for Housing

Under Kenya's **Retirement Benefits (Mortgage Loans) Regulations, 2009**, administered by the Retirement Benefits Authority, pension savings do not replace property title as mortgage security. A conventional mortgage issued by a bank must still be secured by a legally registrable title deed. The 2009 Regulations therefore do **not** create an alternative to title-based collateral.

Instead, the Regulations allow a member's accrued retirement benefits to be assigned as *additional security* to a lender, subject to prescribed limits and trustee approval. In practice, this means:

- The bank holds the **property title** as primary security.

- The pension scheme provides a conditional undertaking that, in the event of default and after the lender has realised the charged property secured under the title deed, an agreed portion of the member's accrued benefits may be applied toward any residual loan shortfall, subject to the approved assignment cap.
- The member's retirement balance remains protected within regulatory limits and cannot be automatically depleted beyond the permitted threshold.

Therefore, pension savings function as a **secondary risk mitigant**, not as substitute collateral.

In contrast, some jurisdictions such as South Africa and Namibia have more operationally embedded pension-backed housing mechanisms, often supported by employer guarantees or structured housing finance systems. In Ghana, a co-lending model between Republic Bank Ghana and Petra Trust incorporates pension-linked risk sharing within a formal credit framework.

In Kenya, uptake of the 2009 provision has remained limited not because title is unnecessary, but because:

- Mortgage lending still requires legally valid title;
- Trustees must approve benefit assignment, introducing governance complexity;
- Schemes are cautious about exposing member retirement savings to credit risk;
- Administrative coordination between lenders and pension schemes is operationally demanding.

In summary, the 2009 framework is not an alternative to mortgage collateral. It is a supplementary security mechanism layered on top of conventional title-based lending. This distinction is critical to understanding both its limited uptake and its practical constraints.

Direct Member Lending from Pension Withdrawal Benefits

In some systems, pension funds or administrators lend directly to members for housing purposes, either by advancing part of a member's withdrawal benefit or offering structured housing loans. Because the lender is often the member's own fund (or a trustee-approved facility), interest rates can be lower than commercial mortgages, improving affordability for middle-income households.

However, direct member lending introduces a higher governance and liquidity burden for pension funds. If not carefully designed, this approach can lead to portfolio concentration, reduced liquidity, and heightened risk to retirement outcomes. Examples of this model exist in Ghana and in several employer-linked or occupational pension arrangements across African markets.

Early Withdrawals for Housing

Early withdrawal frameworks allow members to access a portion of retirement savings before retirement to support home purchase, construction, or improvement. Nigeria provides a prominent example, where contributors may draw down up to 25% of their Retirement Savings Account (RSA) as equity contribution toward a mortgage.

While early withdrawal can reduce deposit barriers and unlock housing access, the central risk is erosion of retirement adequacy, particularly where members fail to rebuild savings after withdrawal. This model therefore requires strict safeguards, eligibility conditions, and repayment or replenishment mechanisms to prevent long-term vulnerability among retirees.

Pension Scheme as Lender via an Asset-Backed Housing Fund

Under this model, pension schemes establish an asset-backed housing finance fund, capitalised by member contributions or fund allocations, which then provides housing loans directly, co-lends with financial institutions, or invests in housing finance intermediaries. This creates a dedicated housing capital pool that can be structured to support incremental housing pathways through phased disbursements and milestone-based lending.

This model is being piloted in parts of West Africa and is typically positioned as a pathway to scale housing finance while formalising access for contributors. However, it requires strong regulation, asset–liability matching discipline, and robust underwriting to prevent governance failures and protect member outcomes.

While demand-side tools can help households bridge deposit and credit barriers, they are not sufficient on their own. In many contexts, housing affordability constraints persist because the market is unable to deliver adequate quantities of appropriately priced housing, particularly for low- and middle-income earners. For this reason, several countries have complemented household financing tools with supply-side approaches that mobilise pension capital to support housing development, rental stock, and enabling infrastructure.

8.2. The Role of Pension Assets in Affordable Housing Supply (Supply-Side)

Beyond supporting individual borrowers, pension funds are globally recognised as a natural source of long-term capital for housing delivery. Pension funds accumulate patient capital to match long-term retirement liabilities, and housing, particularly rental housing, mortgage finance, and large-scale development, also requires long-duration financing structures. Where capital markets and governance frameworks are sufficiently developed, pension funds can bridge this gap through several channels.

Deepening Mortgage Markets and Housing Finance Liquidity

Pension funds often hold government securities as a core asset class. In more mature markets, part of this allocation may be redirected into housing finance instruments such as mortgage-backed securities, covered bonds, or structured housing debt. This helps deepen liquidity in mortgage markets and can lower the cost of housing finance by enabling lenders to access longer-term funding.

This dynamic has been central in the United States, where institutions such as Fannie Mae and Freddie Mac supported mortgage securitisation at scale. Chile also offers an emerging-market example in which pension funds underpinned the growth of mortgage instruments through capital market development.

Institutional Investment in Housing Supply

Pension funds may invest directly in housing developments, or indirectly through developers, housing funds, infrastructure vehicles, or public–private partnerships. Institutional investment can reduce financing costs and extend maturities, which is especially important for affordable housing where private developers face challenges raising equity and long-term debt at viable pricing.

Singapore and Malaysia provide notable examples where institutional systems and public policy alignment have enabled pension-linked capital to support significant housing delivery outcomes.

Supporting Rental Housing and REIT Markets

Real Estate Investment Trusts (REITs) provide a structured pathway for pension funds to invest in income-generating property assets through professional management and regulated governance structures. REITs can finance rental housing stock while delivering predictable yields, aligning with pension requirements for stable, long-term returns.

Where designed appropriately, rental housing REITs can be a scalable mechanism for financing affordable and workforce housing. However, this depends heavily on tenant affordability dynamics, property market fundamentals, and the institutional maturity of REIT regulation.

However, the presence of pension capital does not automatically translate into affordable housing outcomes. In some settings, pension participation in real estate has reinforced concentration in higher-end assets or contributed to price inflation where supply has not expanded at scale. The next section therefore consolidates international evidence into practical success factors and recurring failure modes, highlighting the conditions under which pension-linked housing becomes inclusive, scalable, and financially sustainable.

8.3. Cross-Country Lessons: What Works Well, and What Does Not

Across the world, pension systems are increasingly linked to housing policy as governments seek to expand homeownership, deepen housing finance markets, and mobilise long-term capital for development. However, global experience shows that success is not automatic. Well-designed models can expand access and strengthen household asset formation, while poorly designed models can create inequities, weaken retirement security, or expose pension assets to risks they are not structured to absorb.

Countries such as Singapore, Canada, South Africa, Namibia, and Ghana provide practical lessons for Kenya on the design trade-offs involved.

What Works Well

International models suggest several design features that consistently improve outcomes:

- Long term, consistent approach with simplified rules and transparency that incentivise national saving
- Overall good economic growth and modest government borrowing appetite and interest rates so other investment classes including affordable housing and manufacturing can compete for investment capital
- Integrated savings systems, such as Singapore's Central Provident Fund (CPF), allow structured use of retirement-linked savings for housing while maintaining mechanisms that protect long-term security.
- Targeted housing savings accounts, such as Canada's First Home Savings Account (FHSA) and the Home Buyer's Plan (HBP) under the Registered Retirement Savings Plan (RRSP), help households overcome downpayment constraints through regulated savings pathways.
- Pension-backed loan systems, such as those utilised in South Africa and Namibia, enable formally employed workers to access housing finance with reduced lender risk and improved loan terms.
- Institutional pension investment participation, including examples from Canada's CPPIB and large public pension funds in Southern Africa, supports rental housing, student accommodation, and housing-related infrastructure through long-term investment structures.
- PPP frameworks, where government provides enabling infrastructure, land, guarantees, or regulatory certainty, reduce risk and crowd in pension capital into affordable housing delivery.

Across jurisdictions, success has depended on aligning three elements: (i) affordable and serviceable repayment structures, (ii) credible safeguards that protect retirement adequacy, and (iii) investable housing pipelines that match pension funds' long-term risk-return requirements. The third element needs strong attention in Kenya, where delivery is constrained by many barriers across the value chain. When these conditions are present, pension-linked housing can expand access while reinforcing long-term household security. When they are absent, pension-linked tools either fail to scale or create risks that outweigh their benefits.

What Does Not Work Well

Conversely, international experience highlights recurring failure modes and risks:

- Limited coverage in high-informality contexts, where pension-linked housing mechanisms benefit only formally employed workers and exclude the majority of households. This is especially a concern in Kenya as 85% of jobs as of 2023 were in the informal sector. Consequently pension-linked housing mechanisms inherently benefit only formally employed contributors enrolled in registered retirement schemes. As a result, such models exclude a significant share of households from direct participation, limiting their potential impact on the broader housing deficit.
- High-income bias, particularly in tax-advantaged savings models that disproportionately benefit higher earners with stronger saving capacity.
- Retirement depletion risks, where withdrawals or housing-linked loans undermine retirement adequacy when repayment discipline or replenishment mechanisms are weak.
- Market concentration risks, where pension investment dominance can distort markets and contribute to house price inflation if not balanced with supply expansion.
- Regulatory and administrative barriers, including slow approvals, weak inter-agency coordination, and complex product rules that limit adoption, even where affordability exists.
- Regulatory and administrative barriers**.** Slow approvals, weak inter-agency coordination, and complex product rules constrain adoption of pension-linked housing mechanisms. These challenges span both pension fund administration including trustee approvals, benefit assignment limits, and compliance

oversight and housing delivery frameworks, such as building permits, title registration, and developer compliance requirements. Even where members have the capacity to afford housing finance, these overlapping regulatory hurdles reduce uptake and delay project execution.

These enabling features are relatively consistent across successful countries, even where housing markets and pension systems differ in scale. Conversely, international experience also shows that weak design choices and structural misalignment can undermine outcomes. The most common challenges are not technical failures, but predictable policy and market constraints that repeatedly limit uptake or create unintended retirement and affordability risks.

8.4. Implications for Kenya

For Kenya, these lessons provide a useful lens for interpreting the findings from the Zamara member affordability analysis and the broader housing finance landscape. Rather than adopting foreign models directly, Kenya's opportunity lies in adapting proven design principles in a way that is consistent with national affordability bands, pension system realities, and the legal safeguards needed to protect retirement adequacy.

These global lessons reinforce the Kenyan findings presented in Sections 6–8. Specifically, pension-linked housing works best when the housing finance instrument reflects how households actually build or purchase housing, when the affordability band is matched to deliverable housing stock, and when the pension framework preserves retirement adequacy through collateral-based designs or controlled savings mechanisms.

To illustrate these lessons in practical terms, the case studies below summarise how selected countries have structured pension-linked housing across both demand-side and supply-side channels. Each case highlights the policy design, operational mechanism, safeguards used to protect retirement adequacy, and the core relevance to Kenya's affordability constraints and market structure.

8.5. Global Case Studies: Pension Systems Driving Mortgage and Housing Solutions

8.5.1. Singapore: A Pension–Housing System Designed for Scale and Affordability

Singapore is widely regarded as one of the most successful global examples of how pension savings can be deliberately integrated into a national affordable housing strategy. The Singapore case demonstrates a rare dual-function design: pension savings are structured to support both housing demand (through downpayments and mortgage servicing) and housing supply (through a stable financing mechanism that supports government delivery of affordable housing at scale). This integrated design has been central to Singapore's high homeownership rates and the sustained affordability of public housing over several decades.

At the core of this model is the Central Provident Fund (CPF), a mandatory national savings scheme that has evolved beyond a traditional pension fund to become a comprehensive social security platform supporting retirement, healthcare, and housing outcomes. Established in 1955, CPF operates as a structured long-term savings vehicle that creates a predictable, pooled flow of domestic capital, supporting both household asset accumulation and national development priorities.

Structure and Contribution Design: Building a Housing-Focused Savings Pipeline

CPF is funded through compulsory monthly contributions from employees and employers. For workers aged 55 and below, the contribution rate is high by international standards, amounting to 37% of monthly wages (20% contributed by employees and 17% by employers). This design generates one of the deepest long-term savings pools globally, enabling CPF to play a significant role not only in retirement planning but also in household homeownership pathways.

Contributions are allocated into dedicated accounts aligned with lifecycle needs:

- Ordinary Account (OA): primarily for housing, approved investments, and insurance
- Special Account (SA): primarily for long-term retirement savings
- MediSave Account (MA): reserved for healthcare-related needs
- At age 55, balances from the OA and SA are consolidated into the Retirement Account (RA).

A defining feature of CPF's design is that younger workers direct a large share of their contributions into the Ordinary Account, ensuring that individuals accumulate housing-oriented savings early in their working life. This creates a systematic mechanism through which households can finance housing consumption without relying entirely on commercial mortgage markets or short-term borrowing.

Demand-Side Integration: Using Pension Savings to Enable Homeownership

Singapore's approach stands out internationally because CPF members are permitted to use their OA savings to meet a wide range of homeownership-related costs. In effect, CPF turns pension contributions into a practical tool for housing access, especially for first-time buyers purchasing government-built flats delivered through the Housing & Development Board (HDB).

CPF Ordinary Account savings can be used for:

Key Insights

1. Mandatory, Large-Scale Savings Enable Housing Access
With 37% of wages channelled into CPF for younger workers, a significant portion flows into the OA and is available for home purchase.

2. Pension Savings Directly Reduce Housing Costs
Using OA savings for downpayments and mortgages means households rarely pay cash monthly for their homes.

3. Strong Safeguards Protect Retirement Adequacy
Caps on OA usage and minimum retirement balances reduce long-term risks.

4. Pension Assets Finance Both Mortgage Demand and Housing Supply
CPF supports individuals (through OA withdrawals) and the state (through government securities) simultaneously.

5. High Homeownership Achieved Through Integrated Policy
More than 80% of Singaporeans live in HDB homes, demonstrating the model's effectiveness.

6. Housing Affordability Is Maintained Over Generations
Long-term, low-cost capital allows the

- downpayments on HDB flats and approved private properties
- monthly mortgage repayments
- stamp duty and legal fees
- home protection insurance premiums.

This system reduces the cash burden of purchasing a home by allowing households to finance large components of home acquisition and servicing through accumulated savings rather than purely through disposable income.

A key strength of the CPF model is that OA savings earn a guaranteed interest rate, which stabilises household purchasing capacity and supports more predictable repayment. Government statistics also indicate that CPF contributions frequently cover a substantial share of mortgage obligations. In many cases, households use a significant portion of their monthly OA inflows to service their housing loans, reducing out-of-pocket cash requirements and enhancing mortgage sustainability over time.

Retirement Safeguards: Balancing Housing Use with Long-Term Adequacy

While CPF supports housing access, Singapore's model is also characterised by strong safeguards designed to avoid eroding retirement security. The ability to use OA savings is regulated through controlled limits, including restrictions linked to the property's valuation and purchase price. In addition, the system reinforces retirement adequacy by maintaining minimum retirement savings requirements within CPF accounts as members approach retirement age.

These safeguards reflect a central lesson from the Singapore case: pension-linked housing access can be effective and scalable, but only when the system is deliberately structured to prevent excessive depletion of retirement balances.

Supply-Side Integration: Financing Public Housing Delivery Through National Savings

Singapore's pension–housing linkage extends beyond household lending support. CPF also functions indirectly as a national development financing mechanism, supporting the state's ability to deliver housing supply at scale. CPF balances are invested through government-linked financing channels and government securities, creating a large and stable pool of long-term capital that can support:

- construction of public housing units
- urban development programmes
- long-term infrastructure investments associated with housing delivery.

This structure enables Singapore to fund public housing delivery through predictable, domestically mobilised capital rather than relying on volatile capital markets or short-term financing cycles. As a result, HDB has maintained consistent delivery capacity and long-term programme continuity across multiple decades.

Outcomes and Relevance for Other Countries

Singapore's CPF–HDB model illustrates what is possible when pension policy, housing delivery systems, and long-term national planning operate as an integrated framework. The approach combines:

- structured household savings earmarked for housing needs,
- strong controls to protect retirement adequacy, and
- a supply financing mechanism that supports large-scale delivery of affordable housing.

This alignment has enabled Singapore to maintain one of the world's highest homeownership rates, with the majority of residents living in HDB homes. Overall, the Singapore case provides a compelling example of how pension systems can be used not only to improve retirement outcomes but also to strengthen household asset security through homeownership, without undermining long-term financial sustainability.

Many policymakers have expressed interest in positioning Kenya's development trajectory along the lines of Singapore's model. However, several structural and institutional constraints must be addressed before such a comparison can meaningfully translate into policy replication.

First, the structure of Kenya's labour market significantly limits the feasibility of adopting a Singapore-style savings-led development framework. In Singapore, approximately 90.8% of the workforce is formally employed, compared to 75.3% in Malaysia and only 16.4% in Kenya. This disparity has profound implications for domestic resource mobilisation. Singapore's high formalisation rates underpin its compulsory savings system and enable large-scale capital accumulation through structured pension mechanisms. By contrast, Kenya's predominantly informal workforce constrains the ability of pension savings from the formal sector to serve as a sufficient engine for broad-based national development. This challenge is further reflected in macroeconomic indicators: gross savings as a percentage of GDP declined from 37% in 1993 to 16% in 2024, signalling reduced domestic savings capacity.

Second, Kenya lacks an integrated and coordinated framework linking health financing, retirement savings, and housing provision. Singapore's model rests on strong institutional integration across these pillars, which creates a sense of policy coherence and tangible returns to mandatory contributions. In Kenya's context, the absence of such coordination contributes to public perceptions of fiscal burden without commensurate service alignment, thereby weakening trust and compliance within contributory systems.

Third, elevated levels of government borrowing—often at relatively high interest rates—constrain fiscal space and crowd out private sector investment. Compared to Singapore, which historically maintained disciplined fiscal management and leveraged savings for productive investment, Kenya's debt dynamics limit the resources available for long-term development expenditure. High domestic borrowing costs also dampen incentives for private investment in sectors such as manufacturing, where capital intensity and long payback periods require stable and affordable financing conditions.

Fourth, structural cost pressures in the housing sector must be addressed to improve affordability and scalability. High electricity tariffs, transport costs, imported construction inputs, and regulatory complexity all contribute to elevated unit costs of housing delivery. Simplifying approval processes, improving infrastructure efficiency, and reducing input cost volatility would be necessary preconditions for a sustainable housing expansion strategy.

In summary, while Singapore provides a compelling case study in coordinated savings mobilisation and state-led development, Kenya's labour market structure, fiscal constraints, institutional fragmentation, and cost environment present material differences that must be systematically addressed before any meaningful policy emulation can occur.

Year	Singapore (USD per capita)	Malaysia (USD per capita)	Kenya (USD per capita)
1960	~USD428	~USD250–USD300	~USD103
1970	~USD900+	~USD370	~USD160
1980	~USD4,700	~USD1,800	~USD440
1990	~USD12,000	~USD2,400	~USD360
2000	~USD25,000	~USD4,000	~USD430
2010	~USD46,000	~USD8,900	~USD1,000
2020	~USD60,000+	~USD10,400	~USD1,927
2024 (Est.)	~USD90,689	~USD11,868	~USD2,206

Table 8.5.1 a compelling case study

8.5.2. Malaysia: EPF as a Mass-Market Housing Enabler Through Structured Withdrawals

Malaysia's Employees Provident Fund (EPF) is one of the largest and most mature provident fund systems in Asia and has played a major role in enabling homeownership for decades. Unlike pension systems that only support housing through collateral or indirect investments, EPF allows members to withdraw part of their savings for housing purposes, making housing one of the most significant non-retirement uses of pension savings in the country. This design has made the EPF housing facility widely utilised and central to household housing finance pathways.

Beyond supporting households directly, EPF is also a major institutional investor, allocating capital into government securities, infrastructure, real estate, and listed property instruments. With investment assets exceeding RM 1.1–1.25 trillion (EPF Annual Report 2023–2024; Bernama, 2024), EPF has meaningful influence over both the demand-side affordability of homeownership and, indirectly, the supply-side financing environment for property and housing development in Malaysia.

Key Highlights

1. EPF is one of Asia's most prominent provident funds with **over RM1.1–1.25 trillion** in assets (EPF, 2024; Bernama, 2024).
2. Housing withdrawals are enabled through **Akaun Sejahtera** for downpayments, instalments, loan reduction, and building (EPF Housing Schemes, 2024).
3. The **75:15:10** contribution split ensures long-term retirement protection while allowing mid-term housing access (EPF, 2024 Reform Announcement).
4. EPF's large-scale investments in infrastructure, REITs, and real estate meaningfully shape Malaysia's housing supply (EPF Investment Report, 2023).
5. Policymakers must balance homeownership access with retirement adequacy, especially for lower-income workers (MOF Economic Report, 2023/24).

Background and Institutional Scale

EPF was established in 1951 under the EPF Act (1951) as a compulsory defined contribution scheme, primarily serving private-sector workers and non-pensionable public employees. Over time, EPF has grown into one of the world's largest retirement institutions, serving over 15 million members (EPF, 2023). Its scale makes it systemically important: given the size of its assets, even modest policy changes, especially on withdrawals, can affect household behaviour and national housing market dynamics.

Contributions and Account Structure

Contribution Rules

EPF is funded through regular mandatory contributions by both employers and employees. Contribution rates vary by wage band, but are typically around:

- Employer contribution: ~12%
- Employee contribution: ~11% (EPF Contribution Schedule, 2024)

This consistent, payroll-based contribution model supports long-term accumulation and ensures broad coverage among formal sector workers.

The 2024 Account Reform

In May 2024, EPF introduced a new three-account structure aimed at strengthening retirement protection while maintaining flexibility for priority household needs such as housing. From 11 May 2024, contributions are allocated as follows:

- 75% into *Akaun Persaraan (Retirement Account)*
- 15% into *Akaun Sejahtera (Wellbeing Account – Housing, Health, Education)*
- 10% into *Akaun Fleksibel (Flexible Account – Emergency savings)* (EPF, 2024 Announcement)

This reform reflects a deliberate attempt to preserve long-term retirement adequacy while allowing controlled access to savings for mid-term needs, including housing.

Demand-Side Integration: EPF Withdrawals for Homebuyers

Malaysia's housing-linked pension framework is primarily demand-driven. EPF allows members to access funds (primarily through *Akaun Sejahtera*, previously Account 2) for housing-related expenditures under defined withdrawal schemes.

Eligible Uses of Withdrawals

EPF housing withdrawal schemes allow members to withdraw funds for:

1. Downpayment for a first or second residential property
2. Monthly loan instalments
3. Settlement or reduction of outstanding home loans
4. Construction of a house on owned land (EPF Housing Withdrawal Schemes, 2024)

These mechanisms support different household housing pathways, including both purchasing completed homes and incremental construction approaches for those who own land.

Withdrawal Limits and Amounts

EPF housing withdrawals do not follow a single fixed percentage rule. Instead, withdrawal amounts depend on:

- the member's balance in *Akaun Sejahtera*
- the property price or loan amount
- the specific withdrawal scheme used.

Typically, members may withdraw either:

- the difference between the property purchase price and the approved mortgage amount, or
- an amount required to reduce or settle the outstanding loan balance,
  subject to EPF limits and the applicable withdrawal guidelines (EPF Housing Guidelines, 2024).

Safeguards to Protect Retirement Adequacy

While EPF's housing access provisions are extensive, the framework includes controls to reduce the risk of long-term retirement depletion. These safeguards include:

- restrictions around financing a second home,
- requirements to preserve balances in the retirement account, and
- policies that limit full depletion of mid-term savings, especially as members approach retirement age (EPF Withdrawal Rules, 2024).

These measures reflect the fundamental policy tension in pension-linked housing systems: the more effectively pensions support housing access, the greater the need for safeguards to prevent retirement inadequacy later in life.

Supply-Side Role: EPF as an Institutional Investor

In addition to member withdrawals, EPF is a major institutional investor in the Malaysian economy, influencing the broader housing and real estate environment through its portfolio allocations.

Key EPF investment channels include:

1. Real estate and property development - EPF invests in commercial and mixed-use developments, some of which include residential components (EPF Investment Panel Report, 2023).

2. REITs and listed property companies - EPF is among the largest domestic investors in Malaysian REITs, providing capital exposure to income-generating real estate and related assets (Bursa Malaysia REIT Market Overview, 2023).

3. Government securities and infrastructure financing - A significant share of EPF funds are invested in Malaysian Government Securities (MGS), supporting national financing frameworks that include housing-related development priorities (Ministry of Finance Malaysia, Economic Report 2023/24).

Although real estate and infrastructure may represent a modest share of EPF's total portfolio as a percentage, the scale of the overall fund means these allocations still translate into large absolute investment volumes, amounting to tens of billions of ringgit when the portfolio exceeds RM 1 trillion (USD256.3 billion).

Outcomes, Trade-Offs, and Policy Implications

Malaysia's EPF model illustrates how pension savings can materially expand housing access when withdrawals are structured and widely accessible.

Key Positive Effects

EPF housing withdrawals support homeownership by:

- lowering upfront cost barriers (deposit mobilisation),
- easing monthly loan servicing burdens, and
- enabling a broader range of households to participate in formal housing finance, especially younger working households.

In parallel, EPF's long-term investment capital provides stability to national development financing and supports large-scale property and infrastructure ecosystems (Securities Commission Malaysia, 2024 Housing Capital Market Outlook).

Key Trade-Offs

However, EPF's housing facility also presents structural risks and distributional concerns:

- extensive withdrawals for housing can reduce retirement adequacy over time,
- higher-income members tend to benefit more due to larger accumulated balances, and
- significant property-related exposure creates links between EPF performance and real estate market cycles (EPF Risk Management Disclosure, 2023).

Malaysia provides a strong example of a high-uptake pension-linked housing model, demonstrating the effectiveness of structured withdrawals in reducing deposits and servicing burdens. At the same time, it highlights why retirement adequacy safeguards are essential whenever pension balances are used for non-retirement objectives. For countries like Kenya, the Malaysian case underlines that pension-linked housing tools must be designed with clear controls, especially in contexts where retirement coverage is narrower and affordability pressures are persistent.

In many pension systems, including Kenya's NSSF, Malaysia's EPF, or Singapore's CPF, the "housing" provisions allow members to withdraw a portion of their retirement savings early to buy, build, or renovate a home. These withdrawals are often from the main retirement account, not just a smaller side account.

- Akaun Sejahtera / Special Housing Account (15%):
  This is often cited in policy notes — a designated portion (e.g., 15% in Malaysia's EPF Akaun 2 / Sejahtera concept) is meant for pre-retirement withdrawals for housing. Members can use these funds without penalties.

- Additional contributions or full account withdrawals:
  Some systems allow members to withdraw beyond the 15% limit under specific conditions, such as joint financing with banks, co-investment schemes, or blended finance mechanisms.

So, while the official "housing portion" might be 15%, in practice actual housing withdrawals can exceed this, especially when combined with loans, partial withdrawals, or blended financing.

How this affects retirement adequacy

Even if the withdrawal is only 15% of your pension account, the effect compounds over time:

1. Reduced principal growth:
   Pension accounts earn returns over decades. Withdrawing even 15% now reduces the principal that earns interest later, which can significantly lower your retirement corpus.
2. Opportunity cost of compounded returns:
   For example, if your account earns 6–8% annually, withdrawing 15% today could reduce your total retirement savings by more than 30% over 30 years due to compounding.
3. Multiple withdrawals:
   Many members may withdraw repeatedly for:
   - Housing purchase
   - Renovations
   - Debt servicing
     The cumulative effect can erode retirement adequacy far beyond the initial 15%.

Policy rationale

- Housing provisions aim to improve immediate quality of life, particularly for home ownership.
- But they are trade-offs: the more you withdraw pre-retirement, the less you have in old age.
- Financial planners often simulate different scenarios to show the long-term effect of housing withdrawals on retirement income.

8.5.3. Canada: Tax-Sheltered Retirement Savings as a Downpayment Engine and Pension Capital for Housing Supply

Canada's approach to linking pension-style savings with housing operates through two complementary mechanisms. On the demand side, individuals can mobilise retirement savings to strengthen downpayments through structured schemes, most notably the Registered Retirement Savings Plan (RRSP) Home Buyers' Plan and the newer First Home Savings Account (FHSA). On the supply side, Canada's large pension funds are major long-term investors in real estate, including rental housing and mixed-use developments, creating sustained institutional financing capacity in the housing market.

Canada's retirement savings ecosystem is therefore one of the more integrated globally in using retirement-linked instruments to influence housing affordability, household liquidity, and real estate investment flows. In particular, the scale of institutional pension assets, alongside widespread participation in personal retirement savings plans, means retirement-linked capital plays a significant role in both household homeownership pathways and broader housing market structures.

Key Insights

1. **Integrated Savings for Homeownership**
   Canadians can use retirement savings (RRSP + FHSA) to fund home purchases, boosting buying power while protecting long-term retirement security.
2. **High Liquidity and Public Uptake**
   Individuals and couples can access up to CAD 100,000–200,000 tax-free/advantaged; strong FHSA adoption shows demand for structured housing savings.
3. **Pension Funds as Housing Investors**
   Large pension institutions deploy billions into real estate, supporting housing supply, rental stock, and urban market stability.
4. **Government Incentives Reduce Risk**
   Loan guarantees, tax breaks, and PPPs attract long-term capital to housing, enabling affordable and mixed-use development.
5. **Equity and Governance Considerations**
   System favours higher-income households due to contribution limits, while strong policy stability and governance ensure sustained impact.

Structure of Canada's Retirement System and Housing Linkages

Canada operates a three-pillar retirement system comprising:

1. Public pensions (Old Age Security and Canada Pension Plan / Quebec Pension Plan)
2. Employer-sponsored pensions (workplace retirement plans)
3. Private retirement savings accounts, particularly RRSPs and newer instruments such as the FHSA

Among these pillars, the strongest direct housing linkages are provided through RRSP-based withdrawal provisions and the FHSA, which collectively enable first-time homebuyers to accumulate and mobilise downpayment resources through tax-sheltered channels.

Contribution Rules and Savings Structure

Registered Retirement Savings Plan (RRSP)

RRSPs are voluntary but widely used across income groups. They are designed to encourage retirement savings through tax advantages, including tax deductions on contributions and tax-deferred investment growth until withdrawal.

Key contribution features include:

- Annual contribution limit of 18% of earned income, up to USD 23717.7 (2024)
- Contributions are tax-deductible, reducing taxable income
- Investment growth within the account is tax-deferred until withdrawal (Source: Canada Revenue Agency, 2024)

First Home Savings Account (FHSA)

The First Home Savings Account (FHSA) was introduced in 2023 as a targeted housing savings vehicle for first-time buyers. The FHSA combines features of both retirement and savings accounts by offering tax deductions on contributions while allowing tax-free withdrawals for eligible home purchases.

Key structure:

- Annual contribution limit: USD 5,859
- Lifetime contribution limit: USD 29,296
- Contributions are tax-deductible, and eligible housing withdrawals are tax-free (Source: Canada Revenue Agency, 2024). Contributions to retirement savings are tax-deductible, and eligible housing withdrawals—used for buying or building a first home or making qualifying renovations within program limits—are tax-free. Withdrawals for existing mortgages, vacation homes, or general expenses are not eligible.
- For a tax-free housing withdrawal:
    - Must be a first-time home buyer
    - Must not have lived in a qualifying home for more than 30 days before making the withdrawal
    - Must move into the home one-year after purchase

Early participation was substantial. In the first year:

- 739,310 FHSAs were opened
- 484,320 accounts contributed, representing a 65.5% contribution rate
- Just under 5% used the funds to buy a home during that period (Source: FHSA First-Year Participation Report, CRA 2024)

These early uptake figures position the FHSA as one of Canada's fastest-scaling housing-linked savings instruments.

Demand-Side Mechanisms: Mobilising Retirement Savings for Homeownership

Canada's demand-side linkage is designed to improve access to homeownership, particularly for first-time buyers, by reducing the burden of upfront deposit mobilisation. This is achieved through mechanisms that allow households to either borrow from their retirement savings or save for a home through tax-efficient accounts, without permanently depleting retirement assets where repayment rules apply.

1. The Home Buyers' Plan (HBP) – RRSP Liquidity for Downpayments

The Home Buyers' Plan (HBP) (introduced in 1992) allows eligible first-time homebuyers to withdraw funds from their RRSP for a home purchase without immediate tax, provided the withdrawn amounts are repaid under defined timelines.

Key features include:

- Maximum withdrawal: CAD 60,000 (USD43,944) per person
- A couple may access up to CAD 120,000 (USD 87,888) (two eligible individuals)
- Repayment period: 15 years
- Minimum annual repayment: 1/15th of the withdrawn amount (≈ 6.67%)
- Missed repayments are added back into taxable income, creating a tax consequence if the repayment schedule is not met (Source: Canada Revenue Agency, 2024)

In practice, this mechanism functions as an interest-free liquidity facility that helps households bridge the upfront financing gap at the point of purchase. Eligible housing withdrawals allow members to access retirement savings **tax-free** for buying or building a first home or making qualifying renovations. Functioning as an **interest-free bridge**, members can withdraw funds upfront (e.g., USD 25,634) and repay over a set period (typically 15 years) without interest, preserving long-term retirement adequacy. This mechanism supports first-time homebuyers while encouraging repayment discipline, and awareness of program limits ensures strategic use without undermining retirement security.

2. The First Home Savings Account (FHSA) – Dedicated Tax-Free Housing Savings

The FHSA expands demand-side affordability by enabling households to accumulate downpayments through a tax-sheltered and housing-dedicated structure.

Its defining advantage is the combination of:

- tax-deductible contributions, and
- tax-free withdrawals when used for eligible home purchases.

Because the FHSA is purpose-built for housing access, it provides a structured alternative pathway to saving for a deposit, particularly for younger households seeking first-time ownership.

Combined Demand-Side Purchasing Power

Canada's system allows households to combine the HBP and FHSA to increase purchasing capacity. When combined:

- Individuals may mobilise up to approximately CAD 100,000 (USD 73,240)
- Couples may mobilise up to approximately CAD 200,000 (USD 146,480) through a blend of FHSA savings and RRSP withdrawals (Parliamentary Budget Office, 2024)

The combined effect is that retirement-linked and tax-sheltered savings channels play a direct role in reducing deposit constraints, particularly in high-priced housing markets.

Supply-Side Mechanisms: Institutional Pension Investment in Housing and Real Estate

Canada's pension funds are among the largest and most active institutional investors in real estate globally. Their investment strategies reflect the suitability of real estate, particularly rental and mixed-use assets, as long-term, cashflow-generating investments that can help match pension liabilities over extended horizons.

Major Canadian Pension Funds with Real Estate Portfolios

Key pension institutions participating in real estate investment include:

1. Canada Pension Plan Investment Board (CPPIB) - Real estate portfolio approximately CAD 63 (USD 43) billion, representing roughly 11% of total assets (CPPIB Annual Report, 2024)
2. Ontario Municipal Employees Retirement System (OMERS) - Real estate holdings through Oxford Properties estimated at CAD 50+(USD 36 billion) (OMERS, 2024)
3. Healthcare of Ontario Pension Plan (HOOPP) - Approximately CAD 14 (USD 10.2) billion invested in property (HOOPP Annual Report, 2024)
4. Ontario Teachers' Pension Plan (OTPP) - Diversified global property exposure including residential assets (OTPP Annual Report, 2023)

Key Investment Channels Used

Canadian pension funds influence housing supply and real estate markets through multiple channels:

1. Direct investment in rental housing and mixed-use developments - Pension funds co-develop and hold rental communities, student housing, and large urban regeneration projects.
2. Investments in REITs and listed property companies - This provides indirect exposure and financing into income-generating housing and real estate platforms.
3. Public–Private Partnerships (PPPs) - Pension funds can participate in long-term projects including affordable housing renewal, social housing, and transit-oriented developments.
4. CMHC-backed financing structures - The presence of government-backed housing finance mechanisms can reduce risk and support long-term investment participation by institutional investors.

Scale of Influence

Canada's institutional pension industry manages over CAD 2 (USD 1.5 trillion) in combined capital (across major funds and systems). As a result, even allocating a modest portion (e.g., 5–15%) into property and housing-related investments translates into very large investment flows into the real estate sector (Statistics Canada, National Balance Sheet, 2024).

Impacts, Trade-Offs, and Policy Considerations

Positive Effects Observed

Canada's pension–housing linkages demonstrate how retirement-linked savings and institutional pension capital can support housing outcomes through distinct channels:

- Improved first-time homebuyer access, through enhanced downpayment mobilisation (HBP and FHSA)
- Increased household purchasing power, particularly where deposit constraints are the main barrier
- Stable long-term capital for rental housing and mixed-use supply, through institutional investment
- Strengthened role of public–private coordination, where pension funds invest alongside government-enabled housing finance structures (Special Senate Committee on Housing Affordability, 2023)

Key Trade-Offs and Constraints

However, the model also presents limitations that are relevant when considering replication:

- RRSP withdrawals may reduce retirement balances if repayment is missed or incomplete, the tax penalty creates incentives to reduce this happening..

  Under Canada's Registered Retirement Savings Plan (RRSP) framework, housing withdrawals are permitted through the Home Buyers' Plan (HBP). Unlike percentage-based systems, there is no percentage cap tied to total retirement savings. Instead, the system applies a fixed monetary cap per individual (currently up to USD 43,944 per eligible first-time homebuyer).

This means:

- A member cannot withdraw more than the program cap, even if their retirement balance is very large.
- A member also cannot withdraw more than their available RRSP balance.
- The limit is not expressed as a percentage (e.g., 60%), which prevents large-scale depletion of retirement savings.
- By contrast, Kenya's housing withdrawal framework, which allows access to up to 60% of retirement savings, creates a clear trade-off between immediate housing needs and long-term retirement security.

While it supports homeownership and improves access to capital, early withdrawals significantly reduce the power of compound growth especially for younger contributors leading to lower retirement outcomes. It also introduces behavioural risks by shifting pensions from long-term savings to short-term liquidity.

This highlights the need for safeguards and financial guidance to balance short-term benefits with the core objective of preserving adequate retirement income.

Retirement Risk and Repayment Discipline

RRSP housing withdrawals are structured as interest-free advances, but they are not unconditional. The amount withdrawn must be repaid over 15 years. If a required annual repayment is missed:

- The unpaid portion is added to taxable income for that year.
- That amount becomes permanently lost to retirement savings.
- Future compounding is reduced.

This tax treatment creates a behavioural incentive to repay, reinforcing retirement preservation while still providing housing liquidity.

Have They Got the Right Balance?

Canada's design reflects a deliberate policy balance:

- ✓ Provides meaningful liquidity for first-time homebuyers
- ✓ Caps exposure to protect retirement adequacy
- ✓ Uses tax enforcement rather than interest charges to ensure compliance
- ✓ Avoids high-percentage withdrawals that could destabilize retirement systems

Because the withdrawal is capped at a fixed amount rather than a high percentage of savings, the system limits systemic pension erosion. Even though USD43,944 can represent a large share of smaller accounts, the structured repayment requirement significantly mitigates long-term damage provided compliance is maintained.

Comparative Perspective

Compared to a 60% permanent withdrawal model, Canada's capped and repayable framework is substantially more conservative. It treats pension savings as a temporary liquidity bridge, not a permanent funding source for housing.

From a retirement adequacy standpoint, the capped, repayable approach better protects long-term outcomes while still addressing the upfront housing affordability gap.

- Higher-income households can benefit more due to higher savings capacity and ability to maximise tax-advantaged contributions

  Tax-deductible retirement contribution systems with housing withdrawal provisions can exhibit regressive features because higher-income households are better positioned to benefit from them. Individuals with higher earnings typically have greater savings capacity, enabling them to contribute more consistently and accumulate larger retirement balances, which in turn allows them to maximize allowable withdrawal limits. Additionally, tax deductions provide greater value to those in higher marginal tax brackets, meaning the same contribution generates larger tax savings for wealthier individuals than for lower-income earners. Higher-income households are also more likely to meet structured repayment requirements comfortably, reducing the risk of penalties and long-term retirement erosion. By contrast, lower-income households often face constraints in contribution capacity, receive smaller tax advantages, and may struggle with repayment obligations, potentially limiting their effective access to the housing support mechanism.

- Increasing pension fund ownership of residential assets can raise concerns around market concentration

- Exposure to real estate cycles introduces potential portfolio sensitivity during housing market downturns (Financial Consumer Agency of Canada; CPPIB Risk Disclosures, 2024)

Overall, Canada provides a case where pension-linked instruments operate effectively as both a household affordability mechanism (deposit and purchasing-power support) and a supply-capital mechanism (institutional real estate investment). The design demonstrates how tax-sheltered savings structures can be mobilised for housing while retaining longer-term safeguards through repayment rules and regulated account frameworks.

Canada's experience shows that retirement-linked savings can support housing access most effectively when the mechanism is structured, rule-based, and targeted at the deposit constraint, rather than enabling broad withdrawals. It also demonstrates how institutional pension investment can strengthen housing supply, especially rental and mixed-use development, when investable pipelines, governance structures, and risk-adjusted returns are credible.

8.5.4. South Africa: A Mature Pension–Housing Linkage Model (Pension-Backed Lending + Institutional Affordable Housing Investment)

South Africa presents one of the most established pension-linked housing frameworks in Africa, combining pension-backed lending for households with institutional pension investment into affordable housing supply. The system demonstrates how a large formal-sector retirement industry can support housing access through structured regulatory provisions, credit enhancement mechanisms, and impact-aligned investment platforms.

Key Insights

1. Pension-backed loans provide formal-sector workers access to housing finance without fully compromising retirement savings.
2. **Strict limits and FSCA oversight** ensure loans are prudent, capped at 65% of combined fund balances, and restricted to one property per member.
3. **Pension funds invest heavily in affordable housing** through the PIC and other funds, supporting urban development, rental supply, and low- to middle-income homeownership.
4. **Dual role strengthens the housing ecosystem** by enabling both household-level finance (demand) and institutional housing development (supply).
5. **Equity and governance considerations** ensure retirement security, though access favours formal-sector employees and requires careful management to avoid market concentration.

With retirement fund assets exceeding USD310 billion across occupational pension funds, provident funds, and retirement annuities, South Africa's retirement sector represents one of the largest institutional investor pools on the continent. This depth of long-term capital creates significant potential to support affordable housing finance and development, particularly for formally employed households.

Retirement System Architecture and Housing Linkages

South Africa's retirement system is predominantly formal-sector based and comprises three main components:

- Occupational Pension Funds – employer-sponsored defined benefit or defined contribution arrangements
- Provident Funds – employer-based retirement savings vehicles often characterised by relatively higher withdrawal flexibility
- Retirement Annuities (RAs) – voluntary personal retirement savings products regulated under the broader financial sector framework

The pension–housing linkage in South Africa is principally enabled under Section 19(5) of the Pension Funds Act (No. 24 of 1956), which permits retirement funds to provide housing support through two primary mechanisms:

1. Direct loans to members for housing purposes, and
2. Guarantees for third-party housing loans, typically issued by banks or financial institutions.

Eligible housing purposes include:

- purchase of a residential property, or purchase of land and construction of a home
- home improvements, renovations, or repairs
- repayment or settlement of mortgage-secured loans

The framework is structured to ensure that pension-linked housing support remains tied to household housing needs rather than speculative property acquisition. Key conditions generally include:

- the property must be registered in the name of the member (or spouse)
- the property must be occupied by the member or dependents

- lending support is typically limited to one property per member

Demand-Side Mechanism: Pension-Backed Housing Loans and Guarantees

South Africa's demand-side model enables members to access housing finance by leveraging accumulated retirement savings as a form of credit enhancement.

How Pension-Backed Loans Operate

Under pension-backed housing structures:

- the member's accrued retirement benefits are used as collateral support
- the housing loan is often issued by a commercial lender, while the pension fund provides a guarantee against default

  In practice, when a housing loan is issued by a commercial lender and the pension fund provides a guarantee, the bank advances the mortgage while the member's accrued pension benefits are conditionally pledged as security against default. The pension fund does not disburse funds upfront; rather, it provides a limited credit enhancement, typically capped at the member's vested benefit or a defined portion of accumulated savings. If the borrower services the loan fully, retirement savings remain intact. Only in the event of default can the lender recover from the pledged pension balance, and even then, recovery is limited to the member's accrued entitlement—not the fund's general assets. This differs significantly from Kenya's 2009 housing framework, which permits direct withdrawals of up to 60% of accumulated savings on a permanent basis, immediately reducing retirement balances without repayment. In contrast, guarantee-based models, such as those used in parts of South Africa, preserve retirement adequacy by exposing pension savings only conditionally and within capped limits, typically for properties with legally registered title to ensure enforceability.

- some retirement funds may also provide direct lending to members within the scope of the Act

South Africa's Pension Backed Housing Loans and Kenya's are similar in that both allow members to use their accrued retirement benefits as collateral for a housing loan rather than withdrawing the funds outright. However, they differ in structure. In South Africa, the pension fund may lend directly or guarantee a bank loan, and the retirement savings can serve as primary security. In Kenya, the pension typically acts as additional security to a conventional mortgage issued by a bank, meaning a properly titled property (title deed or certificate of lease) is generally required. In both cases, if the borrower defaults, the outstanding balance can be recovered from their retirement benefits when they exit the scheme.

Pension-backed loans can be applied toward purchasing a home, financing construction, or improving an existing property, reflecting a lifecycle-oriented approach that recognises housing as a critical household asset alongside retirement savings.

Pension-backed housing loans that support purchase, construction, or incremental improvement are typically not structured as uncontrolled lump-sum disbursements. In well-designed systems, particularly those operating through commercial lenders, the loan is issued and administered by the bank, while the pension fund provides either a conditional guarantee or facilitates access through regulated withdrawal mechanisms. For completed property purchases, funds are usually paid directly to the seller or developer. For construction or incremental building, disbursements are commonly milestone-based rather than released in full upfront. The lender releases funds in tranches tied to verified stages of construction such as foundation completion, walling, roofing, and finishing based on site inspections conducted by qualified valuers or quantity surveyors. This reduces diversion risk and protects both the lender and the pension-backed exposure.

Monitoring is therefore primarily undertaken by the commercial lender, not the pension fund. The pension scheme's role is limited to safeguarding members' retirement interests either by capping guarantee exposure at the vested benefit level or ensuring withdrawal rules are followed. The fund does not supervise construction quality directly; instead, it relies on regulated lending standards, legal charge registration (where title exists), and professional certification of building progress. In jurisdictions with mature systems, this layered structure bank underwriting, legal collateral, milestone inspections, and capped pension exposure creates controlled risk-sharing.

If Kenya were to promote pension-backed financing for incremental building, several structural adjustments would be necessary. First, loans would need to be administered through regulated lenders with strict underwriting standards rather than through unrestricted withdrawals. Second, disbursement should be tied to certified construction milestones to prevent misuse of funds. Third, guarantee exposure would need to be capped at vested benefits rather than allowing large permanent withdrawals. Fourth, enforceable property rights either full title or legally recognized long-term tenure documentation would be essential to reduce recovery risk. Finally, trustees would require explicit regulatory clarity to ensure that providing limited guarantees aligns with fiduciary obligations.

Replicating an incremental housing finance model in Kenya is therefore feasible, but only if structured around controlled disbursement, lender-led monitoring, capped pension exposure, and strengthened land and construction verification systems. Without these safeguards, pension-backed incremental building could significantly elevate retirement risk rather than responsibly expand housing access.

The construction loans are typically disbursed incrementally rather than as a lump sum. Where a bank issues the loan and the pension fund provides a guarantee, the facility is structured like a standard construction mortgage, with funds released in stages based on building progress such as completion of the foundation, roofing, or final finishes. Each tranche is usually subject to inspections, approved building plans, and proof of land ownership.

This staged approach reduces risk by ensuring that money is only released as construction advances. Even where a pension fund lends directly, disbursement is often structured in tranches for construction projects, aligning with conventional construction finance practices in South Africa.

Loan Limits and Affordability Linkages

Loan limits are typically structured in relation to member balances, and pension-backed loans can be combined with conventional mortgage facilities to improve access and affordability, depending on the lender's underwriting requirements and the fund's internal lending policies.

Regulatory Oversight and Member Protection

The system operates within a regulated environment with strong prudential safeguards intended to maintain retirement adequacy:

- Financial Sector Conduct Authority (FSCA) oversight promotes compliance, governance discipline, and consumer protection
- pension-backed loans are positioned as housing-access instruments, rather than a route for premature and unrestricted pension withdrawal
- repayment discipline and benefit protection requirements are designed to limit long-term erosion of retirement outcomes.

Supply-Side Mechanism: Institutional Pension Investment into Affordable Housing

Beyond household lending, South Africa's pension funds also support affordable housing through direct and indirect institutional investment. These investments are often structured as impact investments, targeting both financial return and measurable housing outcomes, particularly through entities such as the Public Investment Corporation (PIC), which manages capital on behalf of major public-sector funds.

1) SA Home Loans (SAHL) – GEPF Investment via PIC

One of the most prominent examples is the Government Employees Pension Fund (GEPF) investment into SA Home Loans through PIC-supported channels.

- Commitment: USD653 million (2016)
- Allocated across a combination of:
    - housing finance for government employees
    - affordable end-user financing aligned to inclusion and financial sector transformation objectives
    - financing for qualifying applicants beyond government employment
    - funding for affordable housing developers

This structure illustrates how pension funds can support both demand-side affordability (end-user finance) and supply-side delivery (developer finance) through a single coordinated platform.

2) Divercity Urban Property Group – PIC

PIC has also supported affordable rental housing through entities such as Divercity, which focuses on:

- multifamily rental housing
- well-located urban developments
- improved access to quality housing for working households in strategic economic zones

This approach reflects the role of pension funds in enabling professionally managed rental stock, an increasingly important segment where homeownership affordability constraints persist.

3) International Housing Solutions (IHS) Funds – Employer Pension Participation South Africa also demonstrates pension participation through private affordable housing fund structures. A notable example is pension investment into International Housing Solutions (IHS) vehicles.

- reported commitments include participation in IHS funds targeting large-scale delivery of affordable homes
- earlier workforce housing funds have supported tens of thousands of units, addressing both rental and ownership segments for the formal workforce

These examples show pension capital being mobilised through diversified, fund-managed models designed to deliver affordable housing at scale while meeting institutional investment requirements.

Scale of Influence and Market Impact

Given South Africa's retirement sector scale (USD310 billion), even modest allocation shifts (e.g., 5–15%) represent large volumes of long-term capital that can materially influence affordable housing supply, financing liquidity, and housing market stability.

Pension influence on housing supply is exercised through:

- long-term project finance and developer funding
- partnerships with housing lenders and alternative finance providers

- participation in affordable housing funds and rental platforms
- engagement in PPP-aligned structures supporting social and affordable housing outcomes

Impacts, Trade-Offs, and Governance Considerations

Positive Housing Outcomes Supported

South Africa's pension–housing linkage model supports the housing sector in several ways:

- expands housing finance access for formal-sector workers
- strengthens affordable rental and ownership supply pipelines
- enables structured, regulated mobilisation of retirement-linked finance for housing
- supports broader urban development and inclusion-linked housing initiatives

Trade-Offs and Risk Considerations

As with other pension-linked housing systems, the framework includes important constraints and risks:

- pension-backed lending may affect retirement liquidity if repayment discipline weakens
- benefits accrue mainly to formally employed contributors with retirement fund membership
- large-scale pension involvement in housing can create concentration and dependency risks
- restrictions such as "one property per member" limit use for multi-property accumulation, reinforcing the system's focus on housing access rather than investment speculation

Governance and Oversight

South Africa's model is supported by relatively strong governance architecture:

- the FSCA provides regulatory oversight and enforcement of prudential standards
- pension trustees carry fiduciary responsibility to balance housing access with retirement adequacy
- the dual role of pension funds as both household finance enablers and institutional investors requires structured risk management, clear mandates, and aligned reporting.

South Africa's experience is especially instructive for Kenya because it demonstrates a mature "dual-track" approach, where pension savings support housing outcomes through both member-level credit enhancement and institutional investment, without relying primarily on blanket pension withdrawals.

8.5.5. Namibia: Pension-Backed Housing Loans Anchored by a Dominant Public Pension Fund (GIPF)

Namibia provides a clear example of a pension–housing linkage model that is primarily collateral-based, rather than structured around direct pension withdrawals (as in Malaysia) or universal housing-linked savings allocations (as in Singapore). The core design principle is preservation: pension assets remain largely intact while formally employed members, particularly civil servants, access housing finance through a structured, repayment-disciplined mechanism anchored within the pension ecosystem.

This approach offers a practical pathway for expanding access to housing finance where conventional mortgage markets are shallow or expensive. However, the model's benefits remain concentrated within the formal employment segment, limiting its reach in a labour market where pension coverage is not universal.

Namibia's retirement and financial services sector is regulated by the Namibia Financial Institutions Supervisory Authority (NAMFISA). Retirement coverage is strongest within formal employment, while informally employed households remain largely outside pension participation and therefore outside pension-enabled housing mechanisms.

Pension System Architecture and Housing Linkages

Namibia's pension-linked housing system operates through a combination of:

- Occupational pension funds, which cover formal-sector employees, including civil servants; and
- Large umbrella funds, most notably the Government Institutions Pension Fund (GIPF), which is the dominant pension institution in Namibia.

Unlike systems that allow members to withdraw retirement savings for housing, Namibia's approach primarily links pensions to housing through assignment or collateralisation, meaning:

- members access housing loans without withdrawing pension assets directly;
- the pension fund provides credit enhancement by pledging or assigning a portion of the member's future pension benefit; and
- repayment is structured to reduce default risk and preserve the retirement fund's long-term position.

Eligible housing purposes typically include:

- purchase of land or residential property
- construction of a home in eligible areas
- renovation, extension, or improvement of existing homes
- refinancing, repayment, or consolidation of existing housing loans

Key Insights

1. **Collateral-Based Housing Access:** Pension assets serve as security for home loans rather than being withdrawn directly, preserving retirement funds while enabling mortgage access.
2. **Structured, favourable Lending Terms:** PBHLS offers lower-than-market interest rates (BoN repo + 2.5%) with salary-based repayments and repayment limits aligned to retirement age or 20 years.
3. **Significant Institutional Investment in Affordable Housing:** GIPF has invested over NUSD1.5 billion in affordable housing projects (2020–2025), delivering thousands of homes and serviced plots nationwide.
4. **Dual Demand–Supply Approach: Namibia combines:**
   - **Demand-side support via pension-backed loans for civil servants.**
   - **Supply-side housing investments addressing national shortages.**
5. **Equity and Coverage Considerations:**
   - **System primarily benefits formal-sector workers, excluding the informal sector.**
   - **Strong governance ensures retirement adequacy, structured repayments, and sustainable lending.**
6. **Equity and Coverage Considerations:**
   System primarily benefits formal-sector workers, excluding the informal sector.
   Strong governance ensures retirement adequacy, **structured repayments, and sustainable lending.**

This design reflects an attempt to balance two competing priorities: improving access to homeownership for formal workers while preserving retirement adequacy by avoiding early depletion of pension savings.

Demand-Side Mechanism: Pension-Backed Home Loan Scheme (PBHLS)

A major recent policy development is the planned rollout of the Pension-Backed Home Loan Scheme (PBHLS) by GIPF, intended to strengthen access to housing finance for eligible members, with particular relevance to civil servants.

PBHLS Design and Financing Approach

Under the scheme, housing finance is structured around pension-backed affordability and repayment certainty:

- Loan limit: up to one-third of accumulated pension benefits
- funding source: loan capital provided directly by GIPF
- repayment structure: repayments deducted through payroll mechanisms and structured to feed back into the member's retirement account, supporting long-term savings discipline
- pricing approach: interest linked to the Bank of Namibia repo rate + 2.5%, positioned as lower-cost relative to many commercial market alternatives

  Pension-supported housing finance frameworks differ significantly in their pricing structures depending on whether the mechanism is structured as a withdrawal of existing savings or as a new credit facility. In Canada, the Home Buyers' Plan (HBP), administered by the Canada Revenue Agency, allows eligible members to withdraw funds from their retirement savings on a repayable basis without interest. Because the member is effectively accessing their own accumulated capital rather than borrowing from an external lender, no interest is charged. The primary cost is the temporary loss of investment returns while the funds are outside the retirement account. This model prioritizes retirement preservation while providing short-term liquidity support.

  By contrast, Namibia's pension-backed housing loans are structured as formal credit facilities issued by commercial lenders and priced at the Bank of Namibia repo rate plus a margin (e.g., +2.5%). In this model, the bank advances new capital and bears lending risk, while the pension fund provides collateral support or a capped guarantee. Since external capital is deployed, interest is charged—albeit at a concessional rate relative to standard commercial loans. This approach expands borrowing capacity but introduces repayment obligations and credit risk.

  The two models reflect distinct policy objectives. The Canadian approach emphasizes controlled liquidity access and retirement adequacy through **interest-free, structured repayment**. The Namibian approach emphasizes housing market expansion through **concessional, pension-enhanced lending**. For policymakers, the choice between these models depends on whether the priority is preserving retirement balances or scaling access to housing finance.

- maximum term: repayable by retirement age or within 20 years, whichever occurs first

This structure is intentionally designed to make pension-linked housing access a disciplined asset-building pathway, rather than a route for uncontrolled pension leakage. By maintaining repayment within a formal and monitored system, the scheme aims to create more sustainable housing finance outcomes for a defined segment of the workforce.

Supply-Side Mechanism: Institutional Pension Investment into Affordable Housing Delivery

Beyond member lending, Namibia also demonstrates a supply-side role for pension capital through direct investment in housing delivery, led by GIPF. This reflects a dual intervention pathway similar to South Africa and Canada, where retirement capital supports both:

1. household access to housing finance, and
2. housing supply expansion through investable delivery programmes.

Between 2020 and 2025, GIPF reportedly invested more than N$1.5 billion (USD 93 million) into affordable housing initiatives, supporting outputs such as:

- construction of new housing units, and
- servicing of residential plots to expand the supply of developable land.

Between 2020 and 2025, Namibia's Government Institutions Pension Fund (GIPF) invested over 93 million in affordable housing initiatives. The investment supported the construction of new housing units and the servicing of residential plots, expanding the supply of developable land across the country.

For comparative context, this amount is equivalent to approximately USD 90 million or KShs 12 billion, highlighting the significant role of pension capital in addressing housing supply constraints. By leveraging retirement savings for structured housing projects, GIPF demonstrates how pension funds can simultaneously contribute to asset growth for members and broader social infrastructure development.

This example underscores the potential for similar pension-backed housing interventions in other markets, provided appropriate risk management, regulatory safeguards, and project oversight are in place.

This is a particularly relevant design feature: in many housing markets, the bottleneck is not only financing for end-buyers but also the lack of serviced land and viable, investable housing pipelines. By directing pension capital toward supply-enabling interventions, the Namibia model illustrates how pension funds can support affordability beyond mortgages alone.

Impacts, Trade-Offs, and Policy Considerations

Positive Outcomes Supported by the Namibia Model

Namibia's pension-linked housing approach supports housing access and delivery in several ways:

- expands homeownership access for formally employed members through pension-backed affordability
- enables structured lending without direct pension depletion
- supports affordability through predictable, regulated repayment mechanisms
- reinforces savings discipline through payroll-linked repayment structures
- mobilises long-term pension capital into housing delivery and serviced land expansion

Key Trade-Offs and Constraints

Despite its strengths, the Namibia model also reveals structural limitations relevant to peer countries:

1. Formal-sector concentration - Benefits are largely limited to members of formal pension systems. Households without pension coverage, especially informal workers, receive limited or no benefit from pension-based housing mechanisms.
2. Residual default exposure - Even with structured payroll deductions, pension-backed lending still carries credit and operational risk. If defaults rise materially, the pension fund can face balance sheet stress or negative member outcomes.
3. Scale limitations - While pension capital is meaningful, it is unlikely to solve national housing deficits alone without parallel reforms in land supply, infrastructure financing, and household affordability.
4. Governance and market reliance - Increased reliance on pension capital for housing delivery requires strong governance, transparent reporting, and sustained prudential oversight to avoid crowding out diversification goals or over-concentrating pension portfolios into property-linked risk.

Governance and Oversight

Namibia's pension–housing system benefits from an institutional structure where:

- NAMFISA provides regulatory oversight across financial institutions and pension markets; and
- GIPF, as a large and centralised pension entity, has capacity to implement national-scale interventions with standardised underwriting rules, repayment systems, and reporting requirements.

This institutional coherence supports execution discipline; however, it also implies that the effectiveness of pension-linked housing interventions remains closely tied to the governance performance and strategic balance maintained by large pension actors.

Namibia's experience reinforces a core lesson: collateral-based pension-backed lending can expand access without eroding retirement savings, but its reach remains structurally limited unless broader housing supply and affordability constraints are addressed in parallel.

Namibia does not currently have a dedicated pension product for informal sector workers similar to initiatives like Kenya's *Mbao Pension Plan* or private products such as the *Zamara low-cost retirement savings schemes* targeting casual and informal workers. The Government Institutions Pension Fund (GIPF) primarily covers formal sector employees, especially civil servants and members of participating employers, and its new pension-backed housing scheme is currently limited to these active members. Civil society groups have highlighted that most Namibians in informal settlements and informal employment are excluded from formal pension coverage and housing finance, and have called for reforms that extend inclusion to those populations.

Kenya's experience with micro-pension products shows one model for increasing coverage: schemes like the *Mbao Pension Plan* allow informal workers to contribute very small amounts (e.g., daily or monthly via mobile money), building retirement savings over time. Private sector products such as those introduced by Zamara also aim to make pension saving more accessible for casual and informal workers.

In contrast, Namibia's retirement system remains centered on formal employment, and while there are discussions about broader social protection reforms (including a proposed National Pension Fund to cover informal workers), no major, widely adopted informal sector pension scheme currently exists.

This gap suggests that if Namibia were to pursue pension-backed financing that is truly inclusive, it would first need to address pension coverage for informal workers through tailored, flexible contribution schemes before similar housing finance mechanisms could be extended to that segment.

8.5.6. Ghana: Pension-Backed Housing Loans and Institutional Investment to Support Formal-Sector Homeownership

Ghana provides a relevant example of a pension–housing linkage model anchored in credit enhancement rather than broad pension withdrawals. The approach is designed to support formal-sector homeownership by enabling contributors to access housing finance through pension-backed loan structures and repayment mechanisms that improve lender confidence, most notably through structured payment arrangements such as salary deductions. Alongside these demand-side mechanisms, Ghana's pension institutions, particularly the Social Security and National Insurance Trust (SSNIT), have also supported housing access indirectly through institutional investment in residential developments, expanding formal housing stock in urban areas.

Ghana's pension system is governed by the National Pensions Act, 2008 (Act 766) and is supervised by the National Pensions Regulatory Authority (NPRA). The national scheme is administered by SSNIT, alongside occupational and private pension arrangements operating under the same regulatory framework. While this structure supports housing linkages for formal workers, pension coverage remains significantly lower in the informal economy, limiting the reach of pension-enabled housing interventions at the national level.

Pension System Architecture and Housing Linkages

Ghana's housing linkages sit primarily within the formal pension environment:

- Mandatory pension participation applies mainly to public sector workers and formal private-sector employees.
- Informal sector participation is materially lower, limiting the reach of pension-backed housing access tools across the broader population.

Within this structure, pension-related housing finance is implemented through two main pathways:

1. Demand-side mechanisms: pension-backed loans or guarantees that support access to housing finance without requiring direct withdrawal of retirement savings.
2. Supply-side mechanisms: pension institutional investment in housing developments, particularly in urban centres.

Eligible housing purposes supported through pension-backed mechanisms typically include:

- purchase of a residential property
- construction of a home
- renovation or improvement of an existing home
- refinancing or servicing of existing mortgage obligations

Key Insights

1. **Pension-Backed Loans Drive** Housing Access:
Accrued pension benefits are used as security for mortgages, allowing formal-sector employees to access home finance without withdrawing savings.

2. **Structured, Salary-Linked Repayments:**
Loan repayments are deducted directly from salaries, preserving retirement adequacy and minimizing default risk.

3. **Institutional Investment Supports Housing Supply:**
SSNIT and private pension funds invest in residential developments, improving rental and ownership housing supply in urban centers.

4. **Dual Role, Focused on Formal Sector:**
Ghana combines demand-side support (mortgage access) with supply-side contributions (institutional housing investment), but primarily benefits formal-sector employees.

5. **Equity and Policy Considerations:**
- Informal-sector inclusion remains limited.
- Strong governance and oversight ensure retirement funds are protected while providing housing access.
- Pension-linked housing contributes to urban development and affordable housing strategies.

This architecture positions pensions as an enabling instrument for housing access while maintaining the principle of retirement savings preservation.

Demand-Side Mechanism: Pension-Backed Mortgage Lending and Guarantees

Ghana enables housing finance access largely through pension-backed lending models, where a member's accrued pension benefits can serve as security or credit enhancement for housing loans. This structure supports mortgage affordability and access by improving borrower credit standing and enabling structured repayment discipline.

A commonly cited model is the SSNIT mortgage lending approach, which is characterised by:

- loan sizing linked to pension benefit accumulation, often structured as a proportion of accrued contributions;
- repayment via salary deductions, supporting repayment consistency and reducing default risk;
- loan tenors aligned to retirement age, typically extending to approximately 20–25 years depending on borrower profile and product rules; and
- pricing designed to be more affordable than typical commercial mortgage alternatives, though exact pricing varies over time and by lender arrangements.

Ghana's Pension-Backed Home Loan Scheme (PBHLS), launched in 2026, allows members to access housing finance using pension savings as collateral. It is managed through a limited set of administrators rather than a wide network of banks, with loans priced at repo rate + 2.5% (~9%) to be more affordable than commercial alternatives. Since the scheme is newly operational, uptake data is not yet available.

In Kenya, pension-backed mortgages have existed since 2009, allowing members to use up to 60% of accrued pension benefits as collateral. Despite participation by lenders, actual uptake has been very low, due to high interest rates, limited awareness, and affordability constraints.

Overall, both systems aim to expand housing access via pension assets, but Ghana's scheme is in early rollout, while Kenya's longer-standing framework shows minimal practical adoption.

In addition to SSNIT's direct or facilitated mortgage mechanisms, certain occupational and private pension schemes support mortgage access through guarantee structures or by enabling members to secure bank mortgages using pension benefits as part of the overall credit support framework. In practice, members may combine pension-backed security with conventional mortgage lending in order to bridge affordability and loan sizing requirements for completed housing units.

Supply-Side Mechanism: Institutional Investment in Residential Housing Delivery

Beyond individual mortgage access, Ghana's pension ecosystem has also supported housing supply through institutional investment by major pension actors. SSNIT, in particular, has historically been associated with investments in housing estates and residential developments aimed at increasing the supply of quality housing stock, especially in urban centres such as Accra and Kumasi.

Supply-side investments typically serve dual objectives:

- portfolio returns through long-term exposure to real estate assets; and
- social and economic impact, through expanded housing availability and improved living standards for formal workers.

Private pension funds and institutional investors also participate in real estate allocation, often through mixed-use and residential developments, though the extent of direct affordable housing investment varies across funds.

Impacts, Trade-Offs, and Policy Considerations

Positive Contributions

Ghana's pension-linked housing model demonstrates several enabling outcomes:

- expands housing finance access for formally employed contributors who may otherwise struggle to meet collateral requirements;
- supports affordability through structured repayment mechanisms, particularly salary-based deductions;

- strengthens housing supply through institutional investments in residential projects; and
- preserves retirement savings integrity by relying primarily on collateralisation and structured lending, rather than direct pension withdrawals.

Key Constraints and Risks

The Ghana case also reflects structural limitations typical of pension-linked housing models:

- Formal sector bias - Pension-backed housing benefits accrue primarily to formal-sector contributors, leaving informal households largely excluded.
- Credit and repayment risk exposure - While salary deductions reduce risk, loan performance remains sensitive to employment stability, income disruption, and macroeconomic conditions.
- Scale limitations relative to total housing need - Pension-linked housing finance can support segments of demand and supply but does not, on its own, resolve affordability constraints driven by income levels, deposit barriers, and overall housing prices.
- Governance and investment concentration considerations - Pension allocation into housing must be balanced against diversification objectives and prudential investment constraints to avoid overconcentration in property-linked risks.

Governance and Oversight

Pension-linked housing finance in Ghana operates under a regulated environment overseen by the NPRA, with SSNIT and private pension administrators responsible for implementation discipline, member protection, and compliance. Demand-side lending mechanisms are structured to avoid premature depletion of retirement savings by relying on credit-enhancement approaches, while institutional housing investments are expected to align with fiduciary responsibility and portfolio risk controls.

Ghana's experience reinforces that pension-linked housing tools can improve access for formal workers when repayment is enforceable and pension savings are protected, yet the model's national impact remains constrained unless affordability and supply gaps are addressed in parallel.

Taken together, these case studies show that pension-linked housing is neither inherently beneficial nor inherently risky, its outcomes depend on design choices, affordability alignment, governance discipline, and institutional execution capacity. The section that follows distils these experiences into a practical synthesis of what tends to work well, what consistently fails, and what these patterns imply for the design of Kenya's pension–housing linkage options.

8.6. What Works Well / What Does Not Work Well

International experience demonstrates that pension-linked housing can expand access to homeownership and support affordable housing delivery, but only where system design is deliberate and aligned with household affordability, product structure, governance discipline, and retirement adequacy safeguards. Across countries, interventions typically operate through two complementary channels:

- Demand-side mechanisms, which support households to access housing finance (through pension-backed lending, targeted withdrawals, or savings instruments); and
- Supply-side mechanisms, which mobilise institutional pension capital into housing development, rental housing platforms, housing finance liquidity, and enabling infrastructure.

However, global outcomes vary materially depending on how pension assets are integrated into housing finance markets, whether products reflect real cash-flow constraints, and whether housing supply is delivered within effective affordability bands.

A recurring insight from global practice is that pensions are most effective when used to reduce risk, unlock financing access, and support appropriately priced housing supply, rather than being used as a substitute for household income or as a tool to compensate for structurally unaffordable housing markets.

What Works Well

1) Pensions used as credit enhancement (risk reduction), not income replacement

Pension savings can be effectively leveraged as credit enhancement rather than income replacement to support housing finance. In this model, a portion of a member's pension balance is pledged as collateral or used to guarantee a loan, reducing the lender's risk without requiring the member to withdraw funds permanently. This allows households to access housing finance under more favourable terms such as lower interest rates or higher loan-to-value ratios while preserving their retirement savings for their intended purpose. Unlike withdrawal-based systems, where pension funds are spent upfront and retirement adequacy may be compromised, credit-enhanced designs expose the pension fund only conditionally, typically in the event of default. For example, a member with a USD100,000 pension balance might secure a USD60,000 mortgage using the pension as guarantee; if repayments are made in full, retirement savings remain intact, but if the borrower defaults, the lender can recover up to the pledged amount. This approach aligns housing access with long-term retirement security, providing a sustainable and low-risk mechanism to expand homeownership.

2) Strong alignment between housing policy and pension architecture

Effective models demonstrate policy coherence between affordability definitions, housing delivery programmes, and pension rules. Where pension and housing systems are aligned, long-term savings can be used to support homeownership and housing delivery without undermining retirement adequacy.

3) Housing finance designed around cash-flow realities

Better-performing frameworks incorporate product features suited to household income patterns, including long tenures, structured repayment pathways, and flexibility where required. These designs improve affordability by reducing repayment stress and supporting more realistic underwriting and repayment behaviour.

4) Strategic use of concessional or public finance

International experience shows that concessional tools are most effective when used selectively to de-risk key constraints, such as enabling infrastructure and early-stage project risk, thereby crowding in pension and private capital. This tends to outperform blanket subsidies that do not address structural affordability drivers.

5) Recognition and support for incremental housing pathways

Many countries reflect that households often prefer or rely on incremental building and progressive home improvement. Financing systems that support serviced plots, core housing units, and staged construction milestones often scale more effectively than traditional mortgage-only frameworks.

6) Mobilising pension capital into supply-side vehicles

On the supply side, pensions support affordable housing most effectively through structured, investible instruments such as REITs, housing-linked bonds, blended finance vehicles, and long-term rental housing platforms. This enables stable returns while increasing housing stock.

What Does Not Work Well

1) Using pensions to compensate for structural unaffordability

When pensions are used to bridge gaps created by high house prices relative to incomes, the result can be retirement depletion (especially under withdrawal-based models) and low sustainability of homeownership outcomes. Pensions cannot substitute for affordability fundamentals.

2) Financing demand without aligning supply

Where housing supply remains concentrated above affordable price bands, pension-backed mechanisms fail to scale because households remain priced out even when finance availability improves.

3) Rigid mortgage structures with high upfront barriers

Systems underperform where deposit requirements, rigid monthly repayments, and interest-rate exposure remain unchanged. Even when pension collateral exists, product design may still be incompatible with income constraints and cash-flow volatility.

4) Weak retirement adequacy safeguards

Models that allow premature withdrawals without minimum balance controls, repayment discipline, or lifecycle monitoring can materially weaken retirement security. Effective safeguards are essential.

5) Administrative friction and low awareness

Even enabling policy provisions remain unused where administrative processes are complex, awareness is low, and transaction costs are high. Operational design matters as much as legal permission.

Cross-Cutting Synthesis

International experience converges on a central insight: pensions are an enabler, not a substitute, for well-functioning housing markets. Their role is strongest when they reduce risk and unlock capital into appropriately priced housing supply, supported by products designed around real affordability and safeguards that preserve retirement adequacy.

A comparative analysis of selected jurisdictions provides insights into practical design, pricing, and safeguards that preserve retirement adequacy while expanding access to housing finance.

Country	How Pension Supports Housing	Costs / Interest	Safeguards	Key Notes
Singapore	CPF Ordinary Account used directly for downpayment and mortgage	OA earns 2.5% guaranteed; HDB loans subsidised	Withdrawal caps; mandatory retirement balance	High homeownership; integrates housing supply and pension savings
Malaysia	EPF withdrawals for housing (downpayment, loan servicing, construction)	Self-funded; account earns guaranteed returns	Limits on withdrawals; retirement account preserved; controls on second homes	High uptake; integrates withdrawals and EPF investment in real estate; safeguards in place
Canada	RRSP HBP / FHSA withdrawals; no assignment of pension rights	HBP: interest-free loans to self; FHSA: tax-free withdrawals	Repayment schedules; qualifying rules	Dual model: withdrawals for demand, funds invest in housing supply
South Africa	Pension funds can lend or guarantee loans	Market-linked / negotiated rates	FSCA oversight; statutory caps; two-pot reforms preserve savings	Large asset base; funds actively invest in housing
Namibia	PBHLS allows loans up to 1/3 of pension credit	Bank of Namibia repo + 2.5%	Repayments deducted from salary; max term retirement age / 20 years	Fund invests in housing; repayments return to pension accounts
Ghana	SSNIT & some private funds offer loans/guarantees	Below commercial rates; salary-deducted repayment	Repayment via salary deduction; loan-to-contribution limits	Mostly formal-sector employees; partners with developers
Kenya	Pension-backed lending as collateral	Varies by lender; limited standardisation	Prudential controls and scheme rules	Low uptake; enabling regulation alone insufficient

Table 8.6.1 Summary of What Works

The global evidence reinforces a clear message: pensions can be a powerful enabler of affordable housing, but only when used to reduce risk, mobilise long-term capital, and support delivery models aligned with household affordability and cash-flow realities. For Kenya, this implies that the priority is not legislative expansion of access, but rather product redesign, operational coordination in the pension industry, and housing delivery and credit

evaluation, and investment structures that unlock supply within the KShs 1–4 million affordability band while preserving retirement adequacy. Strengthening Kenya's credit information sharing so overall debt obligation of a household is known to a lender is also critical.

The next section therefore translates these lessons into Kenya-specific recommendations and design options, focusing on practical pathways for improving end-user access to housing finance, strengthening investable affordable housing pipelines, and aligning pension system capacity with member housing needs.

9. KEY FINDINGS AND RECOMMENDATIONS

9.1. Rationale and Context

Kenya's affordability evidence and housing finance structure indicate that most formal-sector households face binding constraints across deposit mobilisation, interest-rate exposure, and repayment capacity. At the same time, Kenya has an enabling but underutilised pension–housing policy foundation, including provisions for pension-backed mortgages under the Retirement Benefits (Mortgage Loans) Regulations, 2009 (assignment/guarantee framework). The attempted expansion through the 2020 amendment enabling withdrawals was subsequently quashed, leaving the 2009 guarantee-based approach as the operative mechanism.

Design lessons for Kenya must therefore be consistent with two realities:

1. Household affordability is constrained within narrow price bands, limiting the scope of conventional mortgage uptake even among formal workers; and
2. Pension policy is currently stronger on collateralisation (risk reduction) than on withdrawals, implying that scalable solutions should prioritise guarantees, de-risking structures, and supply-side investment pathways.

Together, these realities imply that the priority is not to "stretch" households into unaffordable housing through pension leakage, but rather to strengthen affordable access by improving risk structures, lowering financing frictions, and mobilising long-term capital into appropriately priced housing supply.

9.2. Opportunity: Rethinking Pension-Backed Housing Product Design

The underutilisation of pension-backed lending points to an opportunity for product redesign and operational enablement, rather than further legislative change.

Lenders, SACCOs, pension administrators, and trustees can collaborate to develop pension-secured incremental housing finance products, tailored to the needs of lower- and middle-income contributors who are financially disciplined but excluded from conventional mortgage markets.

Potential Product Design Features

A redesigned pension-backed housing product can be structured around:

- smaller loan sizes (e.g., approximately Kshs 200,000 to Kshs 1.5 million);
- tranching aligned to construction milestones (foundation, structure, roofing, finishing); and
- flexible repayment structures responsive to income variability and household cash flow pressures.

Target Member Segment

The target market would include formally employed contributors in stable sectors, such as teachers, civil servants, factory workers, and parastatal employees, who have pension savings and consistent contributions but remain outside conventional mortgage affordability.

Why Pensions Improve the Credit Model

Pension collateral reduces lender risk by providing a secondary form of security, improving the risk profile of borrowers who may not qualify for unsecured personal loans. When combined with housing cooperatives, SACCO channels, or structured group schemes, pension-backed incremental lending can also reduce transaction costs and improve underwriting efficiency.

Overall, pension-backed housing will be most effective when designed as a risk-reduction and staged-financing mechanism, supporting households to build progressively, rather than replicating traditional mortgage products that assume high deposits and immediate purchase of completed units.

9.3. Evidence from Zamara Members: Latent Demand, Constrained Pathways

Evidence from Zamara's pension member analysis reinforces the case for rethinking pension-linked housing finance as a tool for lower- and middle-income contributors. Affordability modelling shows that a meaningful proportion of members could sustain smaller, structured housing loans:

- 37,681 members could afford loans of up to KShs 1 million;
- 17,801 members could afford loans between KShs 1–2 million; and
- 8,892 members could afford loans between KShs 2–3 million.

This lending capacity is concentrated in smaller ticket sizes, well below conventional mortgage values, suggesting that the most viable pension-supported housing finance pathway is not the traditional mortgage, but incremental and staged housing finance aligned to realistic affordability bands.

Survey insights reinforce this conclusion. Most respondents live in family households and aspire to at least three-bedroom homes, reflecting the realities of household size and long-term family needs. However, the dominant housing strategy is to build on land already owned, rather than purchase a completed unit. Where external financing is used, personal loans are more common than mortgages, highlighting both the limited accessibility of formal mortgages and households' preference for flexible borrowing structures.

There is also a need to support more effective urban supply by developers at more affordable price points (by bringing down the cost and time of obtaining offsite infrastructure, approvals, legal and other professional fees, providing tax incentives which will have a multiplier effect on economic growth

Importantly, housing demand is strong and time bound. 82% of respondents expressed interest in buying or building a house within the next five years. This points to significant latent demand that is constrained not by aspiration, but by inadequate product fit, deposit and affordability barriers, and limited availability of housing options priced within realistic affordability bands.

The continued underutilisation of pension-backed housing mechanisms suggests that the constraint is not legislative insufficiency, but structural design and implementation limitations within the existing regulatory framework administered by the Retirement Benefits Authority.

While incremental pension-secured lending has been proposed as a viable pathway, a singular focus on this model may not sufficiently address Kenya's evolving housing dynamics — particularly rapid urbanisation, declining land ownership among younger contributors, and the growing importance of developer-led, high-density urban housing.

A more comprehensive approach should therefore distinguish between **demand-side housing access mechanisms** and **supply-side capital mobilisation strategies**, recognising that both are necessary for scale and sustainability.

9.4. Demand-Side Mechanism: Incremental Pension-Secured Housing Finance

Incremental housing finance remains relevant for formally employed contributors who:

- Own land (typically peri-urban or rural),
- Maintain consistent pension contributions,
- Are excluded from conventional mortgage affordability thresholds.

A redesigned pension-backed housing product could incorporate:

- Smaller loan sizes (approximately KShs 200,000–1.5 million);
- Tranche-based disbursements linked to verified construction milestones (foundation, structural works, roofing, finishing);
- Flexible repayment schedules calibrated to income variability; and

- Conservative loan-to-pension ratios to preserve retirement adequacy.

This model enhances asset formation among eligible members. However, its scalability is inherently constrained by land ownership patterns and does not materially expand formal urban housing supply.

9.5. Supply-Side Mechanism: Pension Capital in Housing Delivery Vehicles

Given Kenya's urbanisation trajectory, sustainable housing expansion requires institutional capital directed toward structured housing supply platforms. In this regard, precedent exists within the domestic capital markets.

The Linzi FinCo issuance of the Linzi Sukuk demonstrates the feasibility of mobilising long-term domestic capital into affordable housing development through structured, asset-backed instruments.

Such vehicles offer several advantages within a tightly regulated pension framework:

- Professional management and ring-fenced project governance.
- Predictable yield streams aligned to pension fund liability profiles.
- Diversification across multiple housing units rather than exposure to individual member credit risk.
- Reduced administrative and actuarial complexity compared to member-level lending.

Investing through bonds, sukuk, REIT-like structures, or blended finance vehicles allows pension schemes to participate in scaled housing delivery while maintaining fiduciary prudence and regulatory compliance.

A structural shift requires a parallel strategy to strengthen formal supply and deepen bank-led housing finance. This includes:

- Expanding serviced urban land supply through coordinated public infrastructure investment;
- Streamlining planning, permitting, and titling processes to reduce project timelines and holding costs;
- Rationalising regulatory requirements where appropriate, without compromising safety;
- De-risking developer finance and construction lending;
- Deepening long-term mortgage liquidity markets to reduce pricing volatility;
- Structuring products that extend loan tenors while managing interest rate risk.

9.6. Regulatory Practicality Considerations

Within the pension regulatory environment:

- Trustees prioritise capital preservation and benefit security;
- Direct member lending introduces operational and compliance burdens;
- Early access mechanisms may create actuarial and liquidity pressures;
- Concentration risk must be carefully managed.

By contrast, supply-side housing investment can be structured within existing alternative asset allocation limits, subject to prudent risk assessment and governance oversight. This approach maintains separation between retirement benefits and housing access while enabling pension capital to contribute to broader housing market development.

9.7. Strategic Implications

A balanced pension-housing strategy should therefore incorporate:

1. Targeted incremental housing finance for land-owning contributors; and

2. Institutional investment into structured housing supply vehicles to support urban, developer-led delivery.

Exclusive reliance on incremental models risks disproportionately benefiting current landholders, whose share of the contributor base is likely to decline amid ongoing rural–urban migration and demographic shifts. Scaled urban housing delivery, by contrast, requires institutional capital flows capable of financing multi-unit developments.

9.8. Leveraging Pension Funds for a Triple Impact on Affordable Housing

Kenya's pension funds occupy a strategic position that enables them to support affordable housing through a practical "triple impact" pathway. This involves strengthening demand-side access, expanding supply-side investment, and improving the broader enabling environment for investable affordable housing. Importantly, this role can be pursued within Kenya's existing pension regulatory framework, while preserving the core purpose of retirement savings.

9.9. Balancing Housing Access and Retirement Adequacy

Any expanded role for pension funds in housing must be carefully balanced against the imperative of protecting long-term retirement outcomes. The experience of the 2020 regulatory amendment, subsequently quashed by the High Court, demonstrates the risks associated with direct withdrawals from pension savings for housing purposes. While such withdrawals may ease short-term affordability constraints, they also expose members to the risk of inadequate retirement income and create liquidity pressures for pension schemes.

A more sustainable approach lies in collateral-based mechanisms and collective investment vehicles that support housing access without eroding pension balances. Complementary instruments, such as matched housing savings accounts, tax-advantaged savings vehicles, or dedicated housing sub-accounts that operate alongside core retirement savings, could further strengthen this balance. These approaches allow members to pursue homeownership while preserving the long-term integrity of pension systems.

9.10. Implications from the Zamara Pension Book

The detailed analysis of the Zamara pension book highlights both the urgency and the opportunity for reform. A significant proportion of Zamara members are unable to access housing delivered under the Affordable Housing Programme, let alone housing available in the open market. This reflects a fundamental mismatch between household affordability on the demand side and the cost, size, and location of housing on the supply side.

Most Zamara members earn below KShs 100,000 per month and face competing financial pressures, including existing debt obligations. For these households, a conventional mortgage, even for an entry-level unit, is not viable. Yet aspirations for homeownership remain strong, particularly as members approach retirement, when housing security becomes increasingly important.

Pension funds are therefore faced with a strategic choice. Continuing to operate within a narrow interpretation of their role risks rendering them increasingly disconnected from the lived realities of their members. By contrast, a more member-centric approach, focused on smaller, flexible, pension-backed housing finance solutions and targeted investment in affordable housing delivery, offers an opportunity to enhance both social impact and long-term financial sustainability.

1. Demand side: direct support to tomorrow's retirees	2. Supply side: investment in the housing delivery chain	3. Market enabling support to build value
The 2009 Pension-Backed Lending Provision can already be used to deliver loan products to fund members with low incomes. Explicit attention should be given to product design, so lenders recognise the pension asset as collateral. If lenders and pension funds co-designed incremental housing pension-backed loans, they would: • Unlock demand among the majority of pension members (those earning under KShs 100k). • Align pension-backed lending with Kenya's real housing market, where incremental building is the dominant mode of supply. • Avoid the pitfalls of the	Pension funds are already allowed to invest in real estate, REITs, and infrastructure, but much of this capital still flows into high-end developments. Opportunity: Redirect pension investments into affordable housing supply that aligns with the income profile of members. • Anchor investment in affordable housing REITs or blended finance vehicles. • Support incremental housing finance models that better match repayment capacity of members earning under KShs 100,000. • Partner with developers under the Affordable Housing Programme to scale lower-cost units. • Encourage the creation of public-private partnerships and affordable housing bonds to support pension fund investment.	• Infrastructure & urban regeneration: Pension investments in infrastructure bonds, bulk services, and brownfield regeneration can reduce the cost of housing delivery. • Trustee guidelines: Create simpler, streamlined guidelines for trustees to implement regulations efficiently. • Demand-supply matching: Understanding their members' housing needs and financial capacities, pension funds can be market makers, connecting them to housing products. • Capital advocacy: By signalling demand for investible affordable housing pipelines, pension funds can attract co-investment from DFIs and private equity into the housing value chain.

Table 9.10.1: Pension fund participation opportunities

This "triple impact" approach shifts pensions from being passive accumulators of capital to active enablers of lifecycle financial security, without requiring pension withdrawals or compromising fiduciary obligations.

9.11. Design Options and Policy-Consistent Pathways for Kenya

Use pensions to reduce lender risk, not replace household income

International evidence and Kenya's affordability profile suggest that pension-linked housing solutions should not aim to "stretch" household budgets into unaffordable housing. Instead, pensions should be used to reduce lender risk through structured guarantees, partial collateralisation, or credit enhancement mechanisms.

This approach remains consistent with Kenya's existing legal position, where pension funds can support housing finance primarily through assignment/guarantee structures rather than direct withdrawal.

Policy-consistent implication: A pension-backed mechanism should improve access conditions (approval likelihood, pricing, tenor) while preserving retirement adequacy.

Align housing finance with verifiable affordability bands

Kenya's evidence shows that affordability is concentrated in a limited band for a large share of formal workers, while market supply is often priced above this range. Where housing delivery is not aligned to effective demand, pension-backed lending will remain low uptake even if legally enabled.

Policy-consistent implication: Pension-linked finance should prioritise housing products within affordability bands verified using income and repayment thresholds, rather than being applied across the full market.

Design products around Kenyan income and repayment realities

Conventional mortgages in Kenya often require deposits that remain difficult to raise and repayments that exceed sustainable debt-service ratios for many households. Effective designs should therefore account for:

- statutory deductions reducing net pay,
- existing household debt burdens,
- irregular and variable cash flows (even within formal employment), and
- the preference for manageable financing tranches.

Policy-consistent implication: Product structuring should reduce rigid repayment burdens, improve tenor suitability, and incorporate affordability-based underwriting rather than property-price-driven lending.

Recognise and support incremental housing as an important pathway for people who have access to land

Evidence from Kenyan households and pension members indicates that incremental construction is not a marginal approach but a dominant and rational method of achieving homeownership. Financing mechanisms that support progressive construction milestones are therefore more aligned with actual housing behaviour than one-off purchase mortgages.

This includes financing that can support:

- serviced plots,
- foundations and superstructure stages,
- phased improvements,
- extensions and completion loans.

Policy-consistent implication: Pension-backed lending should be structured to support staged housing pathways without forcing households into high-ticket, high-risk mortgages.

Use concessional finance strategically to crowd in long-term capital

Public and concessional finance can support affordability most effectively when it de-risks delivery constraints and extends tenures, rather than being applied as broad subsidies. In Kenya, refinancing structures (including KMRC) can play a stabilising role where integrated with affordability-based lending and pension credit enhancement.

Policy-consistent implication: KMRC-linked structures can help reduce interest cost and tenor constraints, but they must remain targeted to verified affordability and suitable housing stock.

Mobilise pension capital into housing supply, not only demand

Pension funds are long-term investors whose liabilities align well with long-lived housing and infrastructure assets. Kenya's pension system already has scope to invest in property, REITs, and infrastructure-linked instruments within regulatory limits. However, pension exposure remains concentrated in traditional assets, and housing investments often skew toward commercial or high-end segments.

Policy-consistent implication: The housing affordability gap cannot be closed through demand-side credit alone. Institutional pension investment can support supply expansion into investible affordable housing pipelines, rental housing, and enabling infrastructure, subject to governance and risk safeguards.

Embed data-driven targeting and lifecycle safeguards

Housing finance interventions that are not grounded in data tend to misallocate capital and fail to scale. Kenya's affordability bands, uptake patterns, and member behaviour should inform product development and regulation refinement, alongside safeguards that preserve retirement adequacy.

Policy-consistent implication: Pension-linked housing solutions should use clear eligibility criteria, affordability thresholds, product suitability checks, and monitoring to prevent retirement depletion and distress borrowing.

Taken together, these design principles form the foundation for an implementation-oriented set of options that can be pursued without reopening the underlying pension regulatory architecture. The pathways below deliberately focus on what is feasible under the current framework, prioritising affordability alignment, risk reduction, and market readiness over legislative expansion.

Taken together, these design principles form the foundation for an implementation-oriented set of pathways that can be pursued without reopening the underlying pension regulatory architecture. The options below deliberately focus on what is feasible under the current framework, prioritising affordability alignment, risk reduction, and market readiness over legislative expansion.

9.12. Strategic Opportunities and Policy Options for Kenya

The options presented in this section are intentionally neutral and modular. They can be adopted independently or packaged into an integrated programme, depending on institutional appetite, market readiness, and sequencing constraints. Importantly, each option is designed to preserve retirement adequacy while improving housing access through either credit enhancement, longer-tenure affordability, or supply-side investable pipelines.

Pension-backed credit enhancement frameworks

Kenya could strengthen the usability of the 2009 pension-backed mechanism by developing structured credit enhancement approaches such as:

- partial guarantees against mortgage default,
- affordability-linked collateral caps,
- standardised documentation and approval workflows between schemes and lenders.

This would reduce lender risk and improve access, without requiring direct withdrawals.

KMRC-supported long-term lending targeted to affordability bands

KMRC's refinancing role can support affordability through:

- standardised affordability-based underwriting,
- integration with pension-backed guarantees to reduce risk and improve acceptance.

This opportunity is strongest when linked to housing stock that is within affordability bands and when repayment-to-income thresholds are enforced.

Incremental and alternative housing finance products

There is a structural opportunity to develop pension-linked products that better match household preferences, including:

- serviced plot finance,
- core housing unit finance,
- incremental construction loans with phased disbursement tied to milestones,
- home improvement loans for progressive upgrading.
- long-term tenant purchase schemes

Such products could be delivered through collaboration between pension schemes, SACCOs, and lenders, with pension collateral improving risk outcomes.

Safeguards for housing quality and liveability

To avoid financing housing units that are poorly located or lack basic services, housing finance initiatives can incorporate minimum standards related to:

- infrastructure access and mobility, - we cannot solve for affordable housing without investing in reliable, affordable public transport options
- utilities and services,
- building quality,
- resilience and safety considerations.

Pension investment into affordable housing supply

Kenya can strengthen the supply response by enabling pension funds to participate in investible housing supply platforms such as:

- affordable housing REIT structures (where viable),
- housing bonds and blended finance funds,
- rental housing and workforce housing investment vehicles,
- enabling infrastructure instruments supporting affordable housing delivery.

These instruments should be governed by clear risk frameworks, transparent pipelines, and professional asset management.

Institutional coordination and policy alignment

Scaling pension-linked housing solutions requires coordinated roles across:

- National Treasury,
- housing delivery agencies and programmes,
- Retirement Benefits Authority,
- pension trustees and administrators,
- KMRC,
- financiers and SACCOs,
- developers and contractors
- Demand aggregators including housing cooperatives and appropriate credit evaluation tools for the household affordability.

Coordination reduces fragmentation and ensures that product design, housing delivery, and financing terms operate coherently.

9.13. Packaging the Options: A Practical Two-Track Pathway

For implementation, the options above can be structured into a two-track programme that reflects Kenya's affordability realities and the current pension regulatory framework.

Track A: Demand-Side Access (Households and End-User Finance)

This track focuses on improving access to housing finance without undermining retirement savings, primarily through:

- pension-backed guarantees and credit enhancement,
- KMRC-supported longer-tenure lending targeted to affordability bands, and

- incremental and construction-linked housing finance products.

Track B: Supply-Side Delivery (Investible Housing Pipelines)

This track focuses on increasing the stock of affordable housing through pension-aligned institutional capital, including:

- affordable housing REITs and rental housing platforms,
- housing-linked bonds and blended finance vehicles, and
- enabling infrastructure investment instruments that reduce development costs.

This two-track structure reinforces a central insight from both Kenya's evidence and global lessons: scaling pension-linked housing requires simultaneous progress on affordability-aligned finance and affordability-aligned housing delivery.

Kenya's affordability evidence supports a clear design direction: pension-linked housing mechanisms should not attempt to compensate for structurally unaffordable housing stock or substitute for household income capacity. Instead, pensions are most effective when used to reduce lender risk, unlock longer-tenure and lower-cost finance, and mobilise institutional capital into investible housing supply that sits within verifiable affordability bands.

Where these conditions are met, supported by incremental housing pathways, coordinated institutional execution, and strong lifecycle safeguards, pension capital can contribute meaningfully to improved housing access without undermining retirement adequacy.

The policy-consistent pathways outlined above emphasise that affordability constraints must shape both financing design and housing delivery models. The role of pensions is strongest when it reduces risk, improves access conditions, and anchors long-term supply investment through credible vehicles and governance safeguards. The final section consolidates the evidence and proposes a coordinated way forward for aligning housing, finance, and long-term savings in Kenya.

10. CONCLUSIONS & WAY FORWARD

Kenya's housing challenge is not driven by a lack of demand, capital, or policy intent. Instead, it is fundamentally a challenge of misalignment. Housing supply is expanding, pension savings are steadily growing, and financial and public institutions remain active. However, these elements are not sufficiently aligned with the economic realities that shape how most Kenyan households earn, save, and manage financial risk over time.

For many middle-income households, the aspiration to own a home is supported by strong planning behaviour: regular employment, disciplined saving, and long-term financial goals. Yet, despite these positive behaviours, access to adequate housing remains constrained. This is not a failure of household discipline, it reflects a mismatch between the cost of housing and the financing terms available, relative to real income levels and competing household obligations.

The Core Barrier Is Affordability

The central finding of this study is clear: affordability, not regulation, is the primary barrier to housing access. Regulatory safeguards remain important for protecting contributors and supporting market stability. However, they do not explain the scale of exclusion observed among formal-sector workers and consistent pension contributors. The binding constraint lies in the gap between housing prices and what households can reasonably sustain through deposits and monthly repayments under current housing finance structures.

Until housing products, housing delivery models, and housing finance terms are designed around realistic affordability bands and income behaviour, access will remain limited even among households that are actively saving and financially disciplined.

Why Pension Funds Matter

Pension funds are positioned at the intersection of this challenge and its solution. They represent one of Kenya's most stable pools of long-term domestic capital, built around the working lives and contribution patterns of millions of contributors. Used responsibly, pension funds can support improved housing outcomes in three complementary ways:

- Supporting access (demand-side): by enabling credit enhancement structures that reduce lender risk and improve the viability of appropriately priced housing finance without requiring premature depletion of retirement savings.
- Financing supply (supply-side): by mobilising long-term institutional investment into affordable housing delivery, rental housing, and enabling infrastructure in ways that offer stable returns consistent with pension fund risk profiles.
- Enabling alignment (system-level): by supporting stronger linkages between housing delivery, infrastructure planning, and urban services so that "affordable" housing is also liveable, accessible, and connected to employment nodes.

This positioning allows pensions to contribute to housing outcomes without compromising retirement adequacy, provided that safeguards, governance, and product design remain central.

No Single Fix Will Deliver Scale

The evidence confirms that Kenya's housing constraints cannot be solved through a single intervention. Expanding housing construction without reforming financing design will not unlock sustainable homeownership at scale. Equally, improving housing finance in isolation will not resolve constraints linked to infrastructure, delivery costs, location inefficiencies, and household vulnerability to shocks.

International experience shows that pension-linked housing can expand access to homeownership and support affordable housing delivery but only when system design is deliberate and carefully aligned with affordability realities, product structure, governance discipline, and retirement safeguards. Across countries, interventions typically operate through two channels: demand-side mechanisms (such as pension-backed lending or structured withdrawals that help households access finance) and supply-side mechanisms (where pension capital is invested into housing development, rental platforms, liquidity facilities, or enabling infrastructure).

Outcomes vary significantly depending on how well these mechanisms are integrated into broader housing markets and whether housing supply is actually delivered at price points households can afford.

The strongest-performing systems treat pensions primarily as tools for risk reduction rather than income replacement. Pension savings are most effective when used as credit enhancement through guarantees, partial collateral, or liquidity backstops because this reduces lender risk without forcing households to deplete retirement savings or assume unsustainable debt. Success also depends on policy coherence: housing programmes, affordability definitions, and pension rules must work together. Where mortgage products are designed around real household cash flows incorporating longer tenures, structured repayment pathways, and flexibility affordability improves without undermining retirement adequacy. On the supply side, pension capital works best when channelled into structured, investible vehicles such as housing bonds, REITs, or blended finance platforms that expand the stock of appropriately priced housing.

By contrast, systems underperform when pensions are used to compensate for structural unaffordability. Allowing withdrawals to bridge the gap between high house prices and low incomes may temporarily increase access but can weaken retirement security and fail to produce sustainable homeownership outcomes. Demand-side financing without affordable supply, rigid mortgage structures, weak safeguards on pension balances, and administrative friction all limit impact. Pensions cannot substitute for sound housing economics.

The overarching lesson is clear: pensions are an enabler, not a cure-all. Their power lies in reducing risk, unlocking capital, and supporting well-priced housing supply within a disciplined governance framework that protects long-term retirement security. Simply photocopying another country's system will not work. Each market's income levels, housing supply structure, institutional capacity, and retirement system design are different. What succeeds internationally is not replication, but careful adaptation grounded in local affordability realities and built around sustainable, context-specific design.

Progress depends on coordination. Housing policy, pension regulation, urban planning, developer delivery models, and financial market structures must move in the same direction, guided by a shared understanding of affordability thresholds, risk allocation, and behavioural realities.

The Way Forward: Aligning Housing, Finance, and Long-Term Savings

The way forward is not simply to increase activity; it is to improve alignment and execution across the system. Priority actions include:

1. Define affordability using real income evidence rather than assumed affordability, ensuring that housing delivery pipelines correspond to effective demand.
2. Strengthen pension-linked housing mechanisms by prioritising credit enhancement and risk-sharing structures that improve access while protecting retirement security.
3. Support housing pathways that reflect how households actually build, including incremental construction, phased improvements, and smaller financing tranches linked to milestones.
4. Mobilise pension capital into investible affordable housing supply, including rental housing and enabling infrastructure, supported by clear governance and risk management frameworks.
5. Improve cross-institutional coordination to reduce fragmentation and ensure that housing delivery, infrastructure investment, and housing finance instruments reinforce each other.

A Home and a Retirement Can Go Together

Secure housing and secure retirement should not be competing outcomes. When housing is affordable and delivered in viable locations, households enter retirement with fewer financial pressures, reduced housing insecurity, and greater resilience. Likewise, when pensions are applied prudently to reduce housing finance risk and mobilise long-term supply investment, they can help households achieve housing security earlier in life while preserving retirement adequacy.

Kenya already has many of the institutional foundations required to achieve this outcome. The priority now is to bring these elements together deliberately which is anchored in affordability evidence, supported by sound

product design, and implemented through coordinated action. With this alignment, Kenya can strengthen both housing security and retirement security in a mutually reinforcing manner.

This report demonstrates that Kenya's affordable housing challenge is less about intent or capital availability and more about execution and alignment. The opportunity now is to translate strong demand, growing pension capital, and active housing reforms into solutions that reflect real affordability, support liveable housing outcomes, and protect retirement security. The way forward lies in practical mechanisms that de-risk housing finance, crowd in long-term investment, and scale delivery models that match how households actually build and own homes in Kenya.

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12. ANNEX: INTEGRATED PENSION-LINKED HOUSING FRAMEWORK

Supporting Affordable Housing Access for Kenya's Formal Workforce

12.1. Residential Housing Market Survey Dashboard

An interactive Power BI dashboard has been developed to complement this report, providing a dynamic and data-driven interface for exploring survey findings and affordability analytics. The dashboard enables users to segment data by income levels, geographic distribution, employment sectors, and housing preferences.

Power BI Dashboard Link: Results of Residential Housing Market Survey

Key functionalities include:
- Affordability band analysis and income segmentation
- Housing tenure and demand patterns
- Financing pathway preferences (mortgage vs incremental)
- Pension savings distribution and utilization potential

12.2. NSSF Tier Structure and Implications for Housing Access

The restructured NSSF framework introduces a dual-tier contribution system that directly influences housing finance potential. Tier I serves a social protection role, while Tier II facilitates higher-value contributions and long-term accumulation.

Tier II contributions provide a stronger foundation for pension-backed housing mechanisms, particularly through collateralization models that preserve retirement savings while enabling access to credit.

This structure supports a transition from passive savings to active financial leverage, within regulated safeguards.

12.3. ZEP-RE Collateral Replacement Indemnity (CRI)

The ZEP-RE CRI mechanism represents a critical innovation in de-risking housing finance. It functions as an insurance-backed guarantee that substitutes or enhances traditional collateral requirements.

Key benefits include:
Reduction of lender credit risk

- Improved borrower access to housing finance
  Potential reduction in interest rates due to enhanced credit profiles
- By bridging the gap between pension savings and lender requirements, CRI enables scalable pension-linked housing solutions.

12.4. Numerical Illustration of Affordability and Pension Leverage

A representative affordability scenario demonstrates the interaction between income, lending constraints, and pension-backed support:

Monthly Income: KShs 120,000
Maximum DSTI (30%): KShs 30,000
Estimated Loan Capacity: ~KShs 3.4 million
Pension Savings: KShs 1,000,000 (60% usable as collateral = KShs 600,000)
This illustrates that pension-backed collateral enhances access but does not substitute income-based affordability constraints.

12.5. Integrated Housing Finance Pathway

A realistic housing acquisition pathway reflects actual household behavior and financial constraints:

1. Land acquisition through savings or SACCO financing
2. Pension-backed collateral to unlock credit
3. Incremental construction aligned with income flows
4. Risk mitigation through CRI structures
5. Transition to long-term financing where feasible

This phased approach reduces financial risk and aligns with income variability.

12.6. Strategic Areas of Importance

The analysis highlights key systemic considerations:

- Affordability remains the primary constraint despite savings availability
- Pension-backed lending remains significantly underutilized
- Risk mitigation tools are essential to unlock scale
- Housing supply remains misaligned with affordability bands
- Incremental housing dominates due to flexibility and risk management
- Safeguards are critical to protect long-term retirement outcomes

12.7. Strategic Conclusion

Pension systems can play a catalytic role in expanding housing access but must be integrated within a broader ecosystem that aligns affordability, financing, and supply. Effective implementation requires coordinated action across policymakers, financial institutions, developers, and pension trustees.

With appropriate safeguards and risk-sharing mechanisms, pension-linked housing can become a scalable and sustainable solution.