

Analysis of a performance guarantee-backed mortgage model pilot and its market impact

A case study of Unity Homes



Creating value through
inclusive finance



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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).

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Executive summary

This case study analyses Unity Homes' innovative mortgage structure, its impact on Unity's target market and applicability to the wider Kenya's housing market. Traditionally reliant on cash buyers due to the high cost of construction finance, Unity Homes used to typically sell to investor buyers who had ready cash available to finance the construction of the units, and excluded a large segment of potential buyers who required mortgage financing.

To address this, Unity Homes piloted a **performance guarantee-backed mortgage model**, supported by FSD Kenya. This mechanism allowed banks to release the mortgage value during construction, de-risking the financing process and enabling developers to accept mortgages without waiting for legal registration.

The results have been transformative: mortgage sales have grown from less than 2% of total sales to 30% of revenue in 2025, with \$7.1 million in approved mortgages and a pipeline of over 170 applicants. Buyer demographics show that most borrowers are middle-income professionals aged 40–50, with women representing 65% of uptake, and an average mortgage value of KSh 7 million. This pilot demonstrates the potential of alternative financing structures to expand mortgage uptake, deepen financial inclusion, and bridge Kenya's housing deficit.

The success factors include timely delivery capacity, strong developer balance sheet, targeted mortgage marketing and customer support capacity, and government/DFI-backed subsidies for the mortgage interest rate. Challenges remain in legal delays, geo-referencing requirements, and the replicability of performance guarantees (as a developer with strong developer balance sheet and low debt to equity ratio are pre-requisite to attract a bank to issue performance guarantees, and the concessional fixed rate mortgage financing may be depleted).

The pilot was tested with average unit prices of KShs 7 million, and average loan to value at 85%. Given the proof of concept, the same mechanism can now be replicated to lower cost units, as long as the developer balance sheet and track record are there. Unity Homes units are EDGE certified and the location at Tatu City provides a mixed use ecosystem with employment and educational opportunities nearby.

While the case study shows an innovative mechanism to unlock financing, the key barrier is a lack of access to affordable construction financing for the private sector. As long as this barrier is present, it will be very hard for private sector to engage in delivery of affordable housing at scale. Additionally, legal and other fees related to transferring units remain high and should be addressed as a policy issue.

1. Introduction: The need for a new approach

According to the World Bank's report, from 2010 the estimated potential mortgage market in Kenya was \$9.9 Billion. ¹The potential market was calculated from the assumption that 11% of the urban population who could afford a mortgage would take one out, translating into 250,000 loans with an average value of \$39,000. In 2022 the estimated mortgage portfolio in Kenya was \$700 Million, translating to 26,000 mortgages. This is still quite low, with the estimation of annual housing demand of 250,000 units versus an annual supply that stands at 50,000 units. This shows that affordable housing is still a challenge with many people not being able to afford to buy or build their own homes.

Unity Homes previously focused on **cash sales**, offering tiered discounts to fund construction and avoid **registration delays**. This strategy, while efficient, excluded the **mortgage-reliant market**, which represented less than 2% of their sales. There are 2 cashflow issues faced by developers for mortgage buyers: (1) funding the construction of the unit (2) holding the completed unit till registration is complete, which can take a few weeks to a few months.

With the advent of concessional KMRC offtake financing which provided fixed rate financing for homeowners at 9-9.5% over 25 years, Unity saw an opportunity to test an offplan mortgage product that would solve for the differential in the construction finance cost to the developer, and provide a more affordable product to the buyer. The mortgage buyers are homeowners, compared to most of the cash buyers being investors.

Unity currently receives 4,500 site visits from potential buyers per annum, of which it is estimated 2,500 people cannot afford to buy in cash but could buy via with the KMRC-backed mortgage.

FSD agreed to provide Unity with a grant of KShs 5 million, to cover the performance guarantee cost of 50 mortgages (worth KShs 725 million), targetting middle income earners. The learning from this pilot will be scaled up to the market and there will be a significant market shift on banks' perception on mortgage risk and increased uptake of mortgages by both developers and end user buyers.

¹ Source: World Bank Report 'Developing Kenya's Mortgage Market' published May 2021, available at <https://www.kpda.or.ke/documents/Policies/Developing%20Kenya's%20Mortgage%20Market,%20May%202021.pdf>

2. The performance guarantee mechanism (The Innovation)

With the advent of KMRC refinancing, Unity Homes began engaging with several banks who had received KMRC funding, to create a product that would allow a 12 month early disbursement, therefore releasing funds to Unity at the start of construction. The performance guarantee is Unity Homes' way of securing the bank before the legal charge is registered.

The performance guarantee structure is explained below.

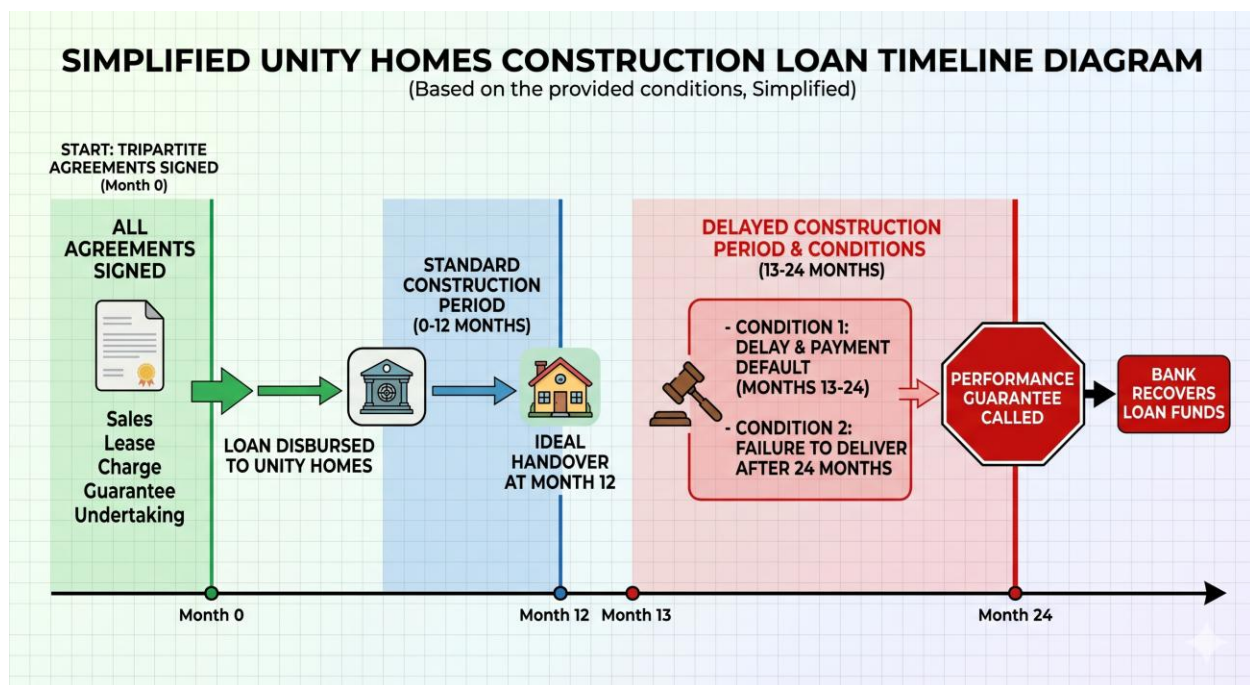


Figure 1: Performance guarantee process

Performance guarantee backed mortgage process:

- Bank underwrites potential buyer
- The bank disburses the loan amount to Unity Homes once the Sales agreement, Lease agreements, Legal charge documents, original performance guarantee and professional undertaking are executed. The most ideal timing for this is when the funds are released 12 months before the house is ready.
- Unity Homes is in a position to build the home with the finance released by the bank, reducing the overall delivery cost of the unit and increasing affordability for the homebuyer.

- Bank is secured by performance guarantee offered by developer. The guarantee will be secured with cash or land provided by Unity Homes which is not part of the project land. As another consumer protection principle, Unity Homes does not charge its project land.
- Once house is constructed, the buyer can occupy the unit and the registration process gets finalised which was typically taking 3 weeks.
- The performance guarantee will be released once the lease and the charge are registered. The cost of the performance guarantee is 2% of the value of the guarantee.
- The guarantee would be called after 24 months if the house is not completed by Unity Homes. If the house is not finished after 12 month, the guarantee is not called but Unity is required to pay interest.

	100% cash upfront	Performance guarantee backed mortgage	Buyer Payment plan over construction	KMRC mortgage	Conventional Mortgage
	A	B	C	D	E
Funding to developer	By Buyer at early stages of construction	By mortgage financier at early stages of construction	By end buyer during construction	By mortgage financier on completion	By mortgage financier on completion
Price increase over A		5%	15%	30%	30%
house price	6,000,000	6,300,000	6,900,000	7,800,000	7,800,000
LTV	N/A	100%	N/A	100%	100%
Mortgage value		6,300,000	0	7,800,000	7,800,000
Tenor		25		25	10
Interest Rate		9.5%		9.5%	15%
Mtg Instalment		55,043		68,148	125,841
Monthly rent		35,000		35,000	35,000
Mortgage / Rent Ratio		1.6		1.9	3.6
Required HH income x3		165,129		204,445	377,524

Figure 2: Impact on house price and affordability based on purchase

The main takeaway from Figure 1 is developers in Kenya amend their pricing based on the mode of payment, to compensate for the cost of construction finance. Previously, Unity mainly sold units through (A) and (C) modes above, which provided Unity the construction finance needed but pushed all delivery risk onto the buyer, and were only accessible by households who were wealthy and had access to that level of cash to pay to the developer. They were also typically investor buyers. Note that Figure 1 is illustrative as prices are dynamic based on market conditions and the point in the construction cycle for the units being sold. To compare like for like, LTV for all is used as 100% as this is now available in the market with mortgage insurance via ZEP-RE.

The progression of the unit price from A to E above, shows the increased cost to Unity for financing the construction. However, previously Unity would not enter into sales agreements with

conventional or KRMC mortgages during construction, preferring to only sell to these 2 categories if they had ready units.

The impact of KMRC terms on affordability can be seen in the mortgage / rent ratio the mortgage to rent instalment became much more affordable from 3.6 to 1.9. However, its availability on its own did not incentivize Unity to create the supply needed. The performance guarantee backed mortgage drove this shift as it opened up Unity's willingness to sell via mortgages during construction and secondly it offered mortgage buyers a price very close to the cash price without placing delivery risk on the buyer.

The initial product was designed as requiring the client to pay 10% of the mortgage amount to the bank to cover any interest payment default if the client's default in the 12-month construction period. The bank would refund the deposit, less any outstanding interest and penalties, once the client had possession of the house. However, in practice, the bank waived the requirement of this 10% deposit by the client for performance backed mortgages, to make it as competitive as the typical KMRC mortgages which were funded 100% of the house price. This is positive as it shows the bank was willing to take this risk and is supported by the collateral replacement insurance (CRI) product available in the market. The 100% financing is backed by a collateral indemnity guarantee provided by ZEP-RE. There is little data shared on the default rate with the CRI.

3. Success drivers and challenges for wider uptake during pilot

A key factor that allows this innovation is the small phases Unity Homes delivers in and the track record they have built of delivering within strict timelines (discussed further in Section 4).

Unity has signed with the two largest banks in Kenya (ABSA and KCB) with this arrangement and for any new project coming up we will be using the performance guarantee mechanism during the construction period. Unity hopes to sign on more banking partners to scale the product with time.

The overall results of a shift from cash financing to including mortgage financing, and the reduced risk and increased affordability to the buyers, has been transformational. However, Unity achieved much fewer performance mortgages than originally targetted.

The key success factors for Unity Homes:

- The current offering of subsidised interest of 9.5%, 25-year payment period and tax incentives (where mortgage interest can be deducted from tax due) enables this product to be attractive for homebuyers.
- Unity's investment in marketing and team capacity to support customers through the mortgage process
- Strictly adhering to delivery timelines

Issues with the performance guarantee:

The main issue on the performance guarantees has been the legal processes and the legal fees. Despite the framework being agreed between Unity and the banks prior to launching the product, it still took months of agreeing on all the processes with the banks' lawyers before the first performance mortgages were issued. This, led to many of the pilot units being transferred via conventional KMRC mortgages on completion

Once the legal processes with the banks were streamlined, Unity faced registration challenges as georeferencing requirements were introduced without adequate capacity to implement. The registration process moved from 3 weeks to over 3 months following the requirement for georeferencing.

Affiliated costs to home ownership

The affiliated costs to homeownership continue to be very high. The table below breaks down the transaction costs for a home-purchase which equates to 10.66%. There is definitely more private sector players can do to reduce these fees as the work is standardised across multiple buyers in the same project. Valuation and legal fees consume a large portion and can be reduced as the developments in question are large developments of very similar units. Therefore, the required due diligence and work required, reduces significantly compared to doing standalone valuations / legal documentation etc. In addition, the loan processing time at banks can also be speeded up.

	Cost	KShs	% of sale price
Sale Price (discounted)		6,300,000	
Unity Homes associated fees			
Legal fee	1.20%	75,600	
Mortgage Handling Fees	Fixed fee	10,000	
Management share capital	Fixed fee	10,000	
Transfer of shares	Fixed fee	6,000	
Utilities connection fee	Fixed fee	50,000	
Total Unity Homes Fees (A+B)		151,600	2.41%
Government fees			
Stamp duty on transfer (B)	4.00%	252,000	4.00%
Total closing costs covered by loan	A + B	403,600	
Loan amount		6,493,200	
Additional Bank Affiliated costs paid by borrower			
Negotiation fees (1.75% of loan amount)	1.75%	113,631	
Excise duty (20% of the bank negotiation fees)		22,726	
Stamp Duty on Charge 0.1% of the Loan Amount	0.10%	6,493	
Valuation fees (bank valuer)	0.25%	16,233	
Mortgage Protection (bank)	0.55%	35,713	
Domestic	0.13%	8,441	
Legal Fees (bank lawyer)	1.00%	64,932	
Total bank-affiliated costs		268,169	4.26%
Total Transaction fees		671,769	10.66%

Figure 3: Affiliated fees to homeownership

Government's Role: Enablers and barriers

The government, together with the World Bank and African Development Bank has been an enabler in this program. The single-digit interest rate and increased flexibility in loan terms have changed the accessibility and uptake of mortgage loans in Kenya. While it has been a game-

changer in the short term, it is not clear how this rate can be sustained over time with the higher prevailing government borrowing rates. It may be more sustainable to have 'buy down mortgages' where the interest rate steps up over time and the government pays the difference in prevailing commercial rates and the rate offered to borrowers over time.

On the other hand, most disbursement delays have been attributable to changes in the mortgage registration process. As a company, Unity lost four months of mortgage disbursements due to new rules regarding geo-referencing. The lack of communication and transparency while making this change has also made it difficult to navigate. Unity is also concerned that all the 1,000+ titles already issued will need to be changed, leading to significant confusion and costs to homebuyers and developers, and reducing an active secondary market.

In addition, lack of implementation of a waiver on first time homebuyers creates an affordability challenge.

4. Unity Homes delivery costs

Unity's design typology consists of small phases of 3-5 storey walk up apartments with 16-30 units maximum, which makes the construction investment at any point much smaller and lower risk to all parties (developer, financiers, buyers). It also reduces the maintenance cost requirement as there is limited expensive mechanical and electrical equipment like lifts which need regular maintenance and replacement.

Unity employs a construction costing model that includes all costs in the cost schedule below. In terms of construction costs, Unity Homes two bedroom is being constructed at \$296per sqm and the one bedroom is being constructed at \$350 per sqm.

The pie chart categories refer to:

- Support overhead - all costs contributed to the head office for project delivery
- Project overhead - all costs related to the project management
- High value project - all costs related to the leisure projects (gym, swimming pool etc.)
- Disbursements - all closing costs held on behalf of the customer

Unity East - Cost Distribution

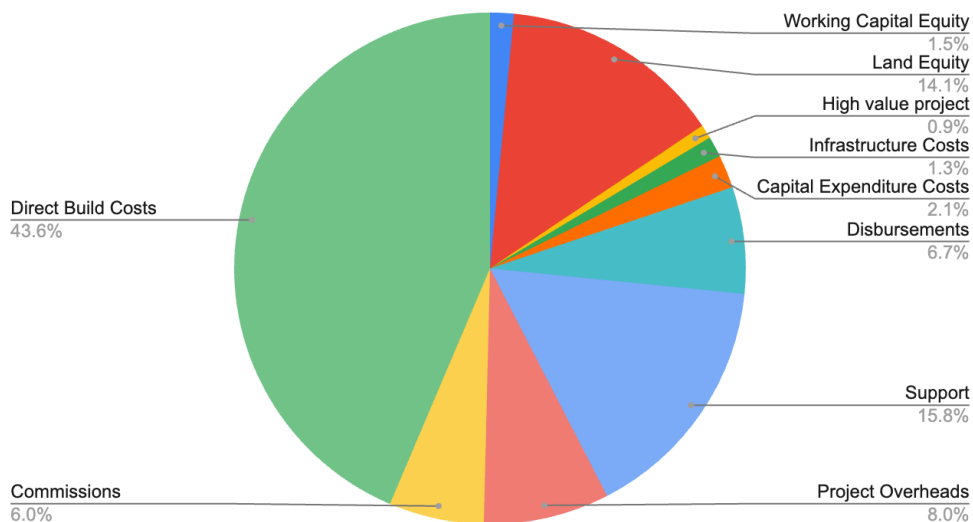


Figure 4: Cost distribution for two bedroom units

Unity One - Cost distribution

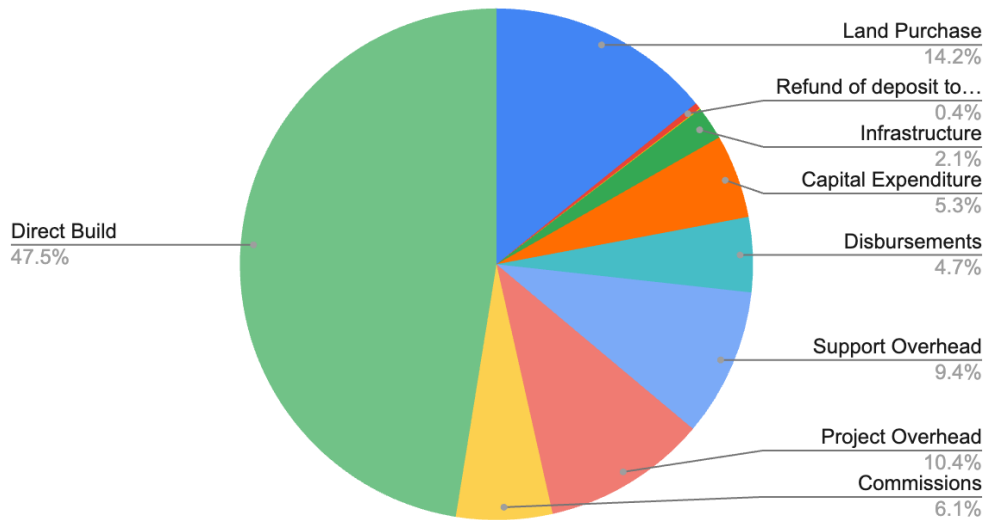


Figure 5: Cost distribution for one bedroom units

The cost of parking is more expensive than the market may appreciate and contained in the land cost. This was previously unpacked in an interesting blog with FSD entitled [The Cost of An Extra Parking Space](#) published in September 2020.

5. Timelines: Delivery and mortgage uptake

Between January 2023 to March 2026, Unity Homes has delivered 450 one-bedroom apartments (of 45 sqm) with one bath, and 640 two bedroom apartment (of 75 sqm) with two baths. This has enabled Unity Homes to grow the mortgage portfolio with the business both with finished units and off-plan units under performance guarantee.

The growth of the mortgage portfolio since the launch of the offplan performance guarantee has been very successful. The results below show the full picture of the progression of the portfolio of the last 24 months. Before the launch, Unity sold less than 2% of their unit (or 4 units) per annum to mortgage buyers. This has increased to 20% of all buyers being mortgage buyers by September 2025.

From Sept 2023 to Sept 2025	Mortgage Applicants	Mortgages not approved / customer dropped out	Mortgage Approvals	Mortgage Legal Process	Mortgages Under Guarantee	Mortgage Drawdowns
Value of mortgages	\$9,600,000	\$3,038,000	\$7,100,000	\$2,073,699	\$372,093	\$2,171,000
KES value of mortgages	1,238,400,000	391,902,000	915,900,000	267,507,171	47,999,997	280,059,000
Number of mortgages	171	49	122	32	8	40

Figure 6: 2025 mortgage applications to conversion

The total mortgage sales actualised in this period was 66 mortgages of which 10 were performance mortgages. The value per mortgage varied from KShs 6 million to KShs 10 million, depending on the size of the house and amount of downpayment the buyer could make.

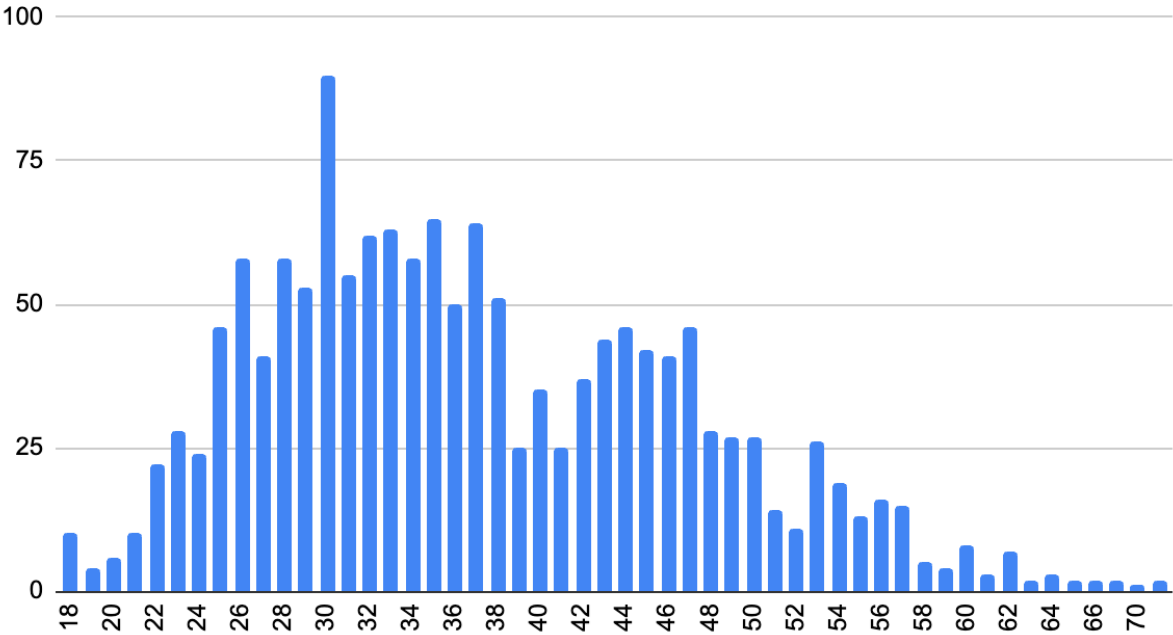
6. The potential homebuyers: A demographic and socio-economic profile

Unity undertook a survey to better understand its target customers and grow leads that will have a high high success rate of obtaining a mortgage. The survey completion was driven via social media campaigns. Unity obtained over 1,000 responses to the survey over a period of 8 months, which helped to generate leads and understand their target market better. (Unity shared the leads with their sales partners and the sales process started from the leads generated by the survey.)

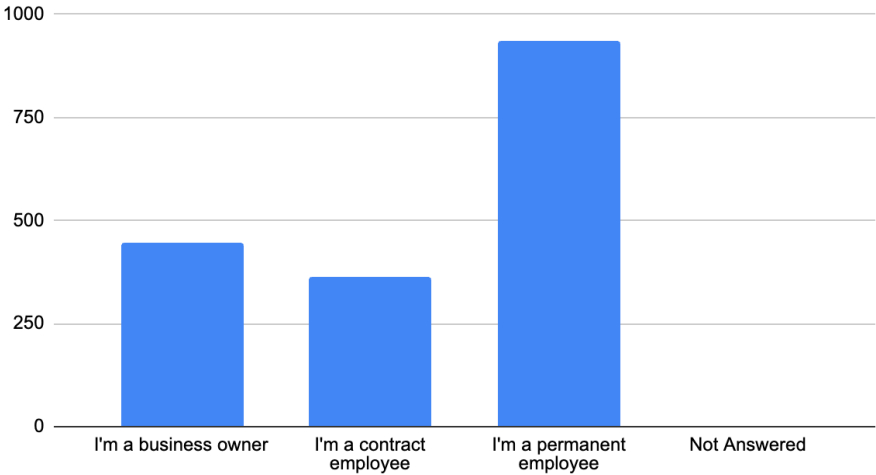
6.1. Who are the potential buyers?

The data for the survey undertaken showed the age group of respondents met the KMRC target, about 50% of the respondents could afford the monthly payment and about 50% of employees were on permanent contracts. Regarding deposits saved, the responses were varied.

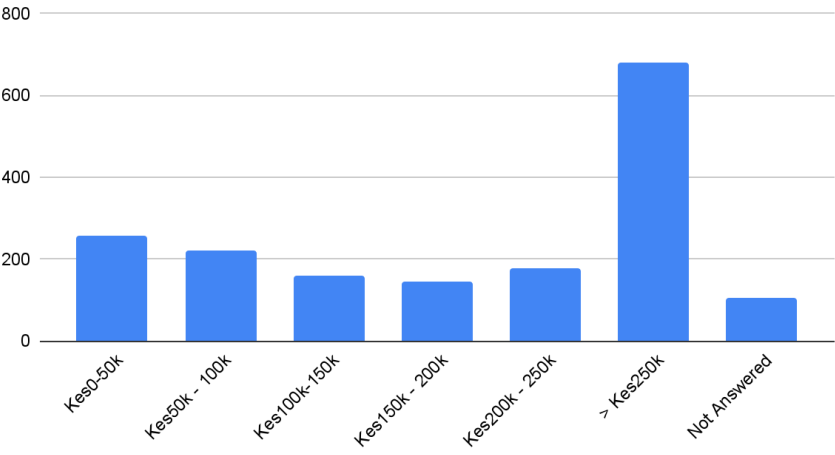
How old are you?



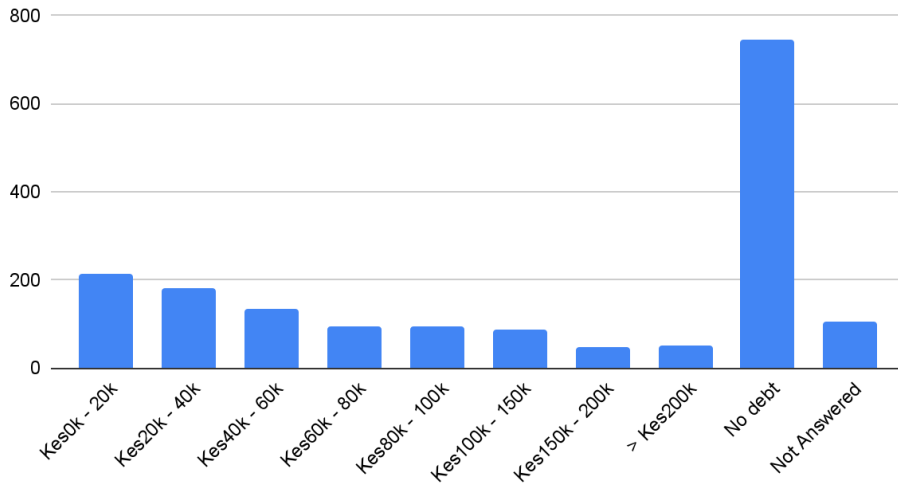
How to you earn your income?



What is your monthly income?

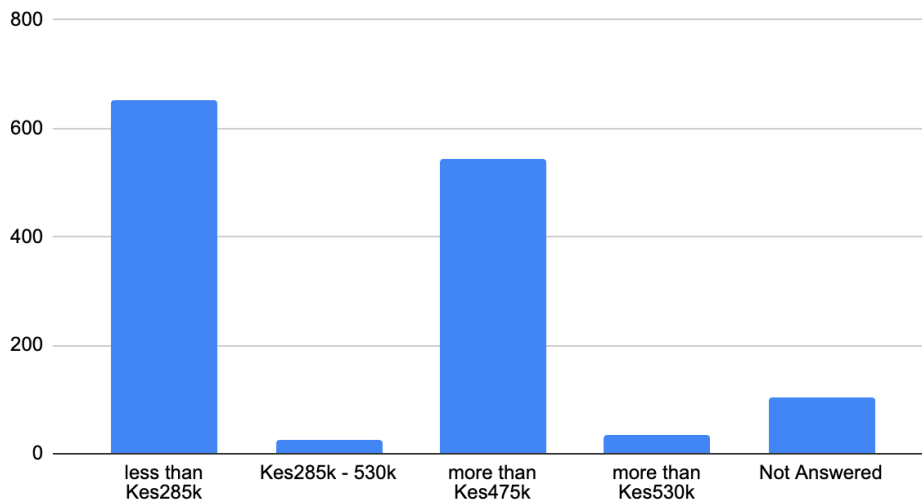


What is your monthly debt payments?

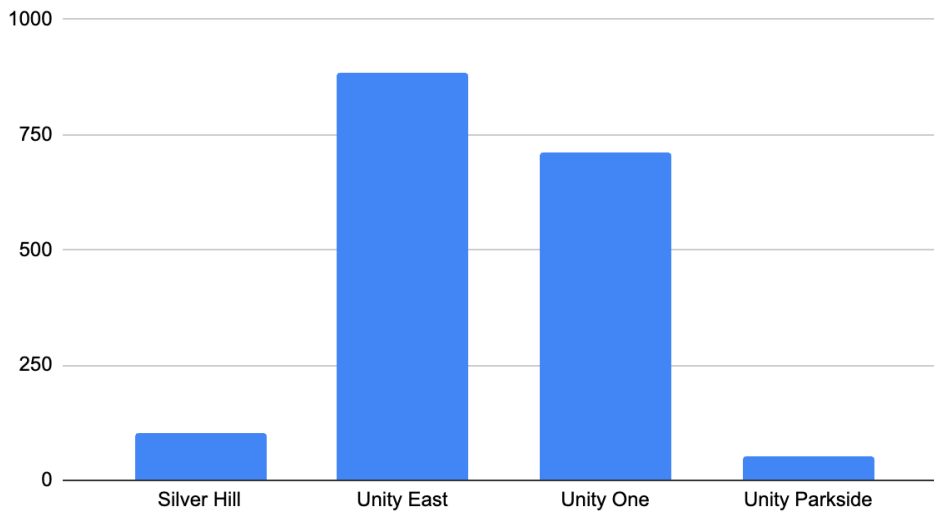


Note: This data to this question on debt might be skewed as the respondent might have wanted to give the answer to favour their application.

How much have you saved for a deposit?



What property are you mostly interested in?



Explanation:

Silver hill - 3-4 bedroom and 4 bathroom townhouses (210 sqm)

Unity east - 2 bedroom and 2 bathroom apartments (75 sqm)

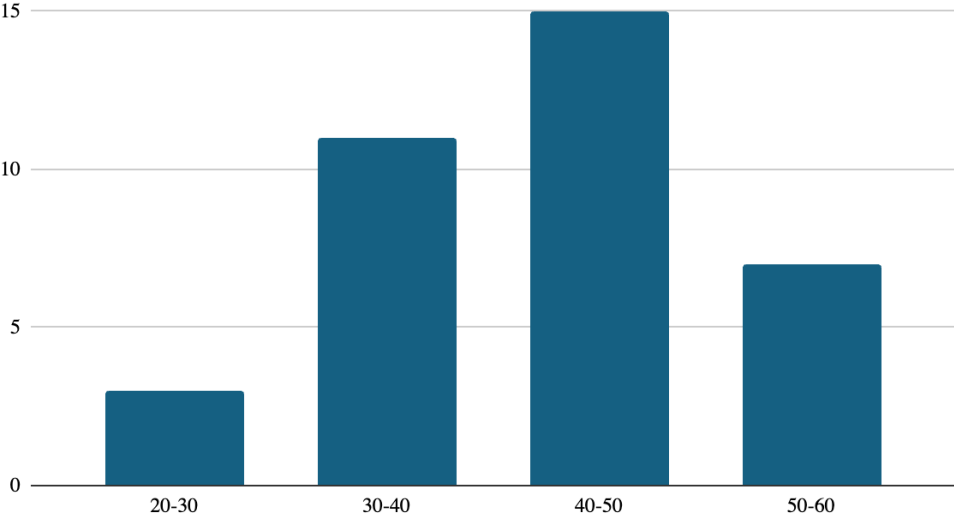
Unity one - 1 bedroom and 1 bathroom apartments (45 sqm)

7. Data from mortgage drawdowns

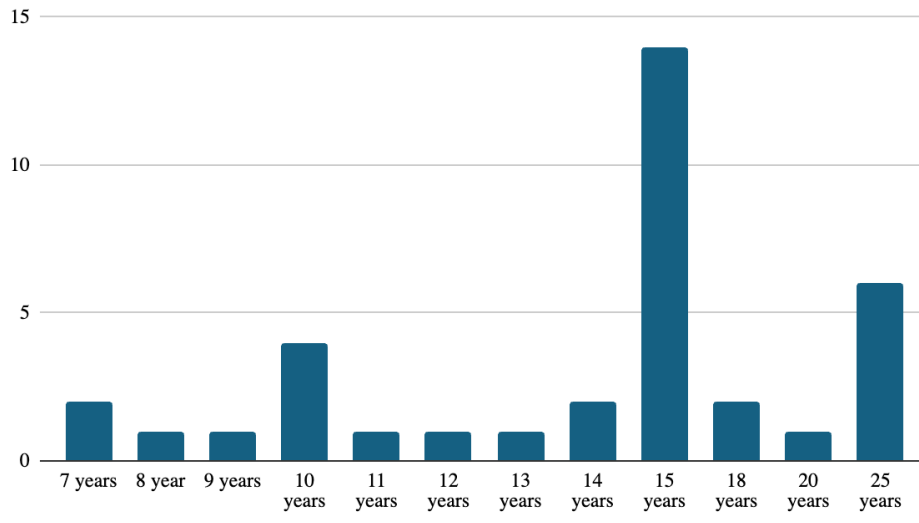
Unity also has limited data on the actual buyers who have received their loans and their apartments. The data is limited due to data protection with the banks and as Unity required to ask or keep any data not relevant to its core operations) . This is what Unity does know about the actual buyers:

- Most borrowers are between 40 and 50 years old
- The most popular loan duration is 15 years
- 65% of the borrowers are women
- Average Loan To Value is 85%
- Average duration from start of the mortgage application to drawdown is 8 months
- Average value of the mortgage is Kes 7,000,000

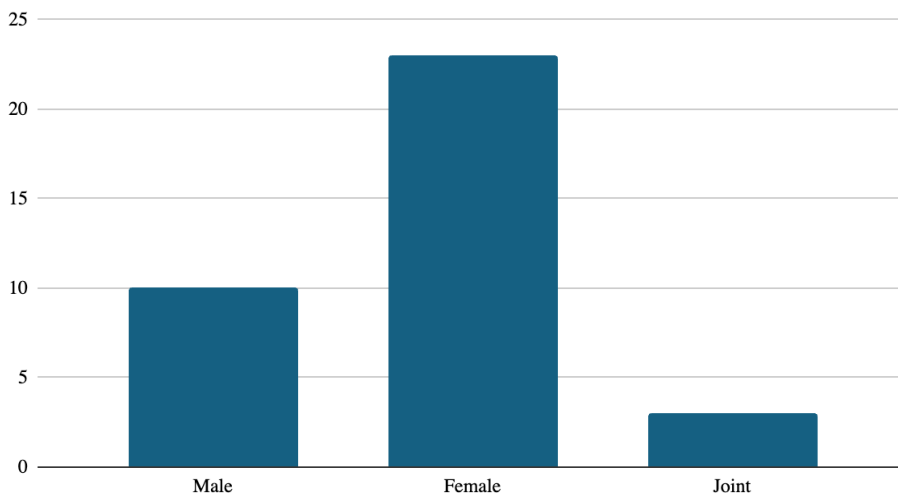
Age Group



Loan Duration



Gender Demographic



8. Conclusion and recommendations

The Unity Homes mortgage innovation has proven that performance guarantees can effectively unlock mortgage financing in Kenya's underdeveloped housing market. By reducing banks' risk and enabling early disbursement, Unity has expanded its customer base, increased revenue diversity, and delivered affordable homes to segments previously excluded.

The model has shown strong market appetite, especially among middle-income households, and validated the role of developer-bank partnerships supported by government-backed institutions such as KMRC. While implementation challenges exist - particularly legal and regulatory delays - the pilot underscores the viability of mortgage-backed construction financing as a catalyst for systemic change.

Key recommendations:

1. **Expand Customer Outreach**
 - Continue targeted mortgage marketing campaigns to increase awareness.
 - Strengthen financial literacy programs to help buyers understand affordability, interest structures, and long-term commitments.
2. **Ensure Long-Term Sustainability**
 - Explore blended financing instruments and partial guarantees to reduce reliance on developer capital.
 - Monitor loan performance to reassure banks and build confidence in the product's risk profile.
3. **Improve the affiliated processes, reduce the loan processing time and cost**

As discussed in Section 3, the affiliated costs to purchase a home and obtain a mortgage are very high, and should be streamlined, as has been done in other markets.
4. **Key improvements from the government**
 - No changes are made to property registration rules without 6 months' notice, and provide a parallel route for existing developments as it is too arduous to change title reference numbers etc for existing developments.
 - Ensure the stamp duty exemptions work for first-time home buyers



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