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RESEARCH PAPER

THE ROLE OF PENSION FUNDS IN THE PROVISION OF AFFORDABLE HOUSING

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Table of Contents

1.0 INTRODUCTION

The housing challenge in Kenya is ominous. Both the supply and demand sides are constraint. The Kenyan housing market is characterized by a large demand and a chronic undersupply of formal housing. The demand for housing is immense and driven by a growing population and urbanization. Further, the growing prosperity has also increased the demand for larger and better quality housing (World Bank, 2011). However, the house prices are unaffordable and continue to rise at a rapid rate. The property prices in the formal market have been increasing, with Nairobi ranked as the highest priced city in Africa, creating an even greater affordability gap (World Bank 2017). According to property experts, HassConsult, the property prices have increased 4.3 times since year 2000[1]. Worst still, only few people can afford a mortgage and the cost of borrowing is still high despite the efforts by the government to reduce the cost of credit[2]. The mortgage penetration is also still low and it represented 3.15 percent of GDP in 2015 (World Bank, 2017; Kigomo, 2016). The number of active mortgages in Kenya is estimated to be less than 25,000 (World Bank, 2017). This is further exacerbated by the fact that investment in the housing sector is minimal and sporadic (GOK, 2004). It is estimated that Kenya requires 200,000 new housing units annually to meet the demand, yet only 50,000 homes are built annually, leaving a deficit of 150,000 units per year (KIPPRA, 2018; World Bank 2011; GoK, 2011). As a result, over 60 percent of the urban residents in Kenya live in slums (UN-Habitat, 2006; Mwaniki et. al, 2015; KPDA, 2018).

It is against this background that the government has in the past put in place various initiatives, legislation, and incentives to encourage the development of affordable housing. In 2004, the government developed the Kenya's National Housing Policy, which aimed at addressing the deficit in housing supply and in arresting the deteriorating housing conditions and bridge the shortfall in housing stock arising from demand that far surpasses supply, particularly in urban areas. In 2017, the government renewed its quest under the initiative "Big Four"

[1] See Hass Consult (2018) The Hass Property Index, House Price Index, Quarter One report.
[2] Interest rate capping law was enacted in 2016 to address the high cost of credit.

agenda, under which, affordable housing is a key priority[3]. The government commits itself to having 800,000 units of affordable houses under the "one million homes programme"[4]. The government also envisages the programme to create 350,000 jobs; of which 225,000 directly and 125,000 indirectly or induced. In order to achieve this goal, the private sector and the pension funds have been earmarked to play a critical role in the financing of the low cost and affordable housing. The mandatory scheme, National Social Security Fund (NSSF) specifically has been identified as a key financier and implementer in the provision of affordable housing owing to its balance sheet strength and land ownership[5]. The pension funds forms a critical source of financing given the mobilized funds, which stood at Kshs. 1.17 trillion as at the end of 2018. Similarly, the investments of pension funds are long term in nature and thus becomes a viable source of funding affordable housing.

1.1 Investment in Real Estate by Pension Funds

Pension funds in Kenya have primarily invested in the "big two traditional assets", government securities and equities. However, over the recent past, the Kenyan financial market has been greatly affected by market volatility arising from myriad of factors. Among them, the 2007/2008 Post Election Violence following the disputed presidential elections; the global financial crisis of 2008/2009; the Euro Crisis of 2009 and the steep depreciation of the Kenya shilling in 2011; the BREXIT and the mild bank crisis in 2016; and the prolonged electioneering period in 2017.

Pension funds therefore are increasingly moving into new asset classes in search for better yield and returns. One such product is real estate, which has been viewed as an important asset for pension funds due to its investment characteristics of high quality, income producing, and its low risk and portfolio

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[3] The "big four" agenda is a government initiative which endeavors to address pertinent issues in the following areas: Manufacturing; Food and Nutrition Security; Health and Housing.

[4] The one million home programme include 800,000 affordable houses and 200,000 social houses.

[5] The value of NSSF by end of December 2017 was Kshs. 209 billion. The NSSF lands in Mavoko (55 acres and 1,000 acres) have been earmarked for development under the big four agenda.

diversification benefits (APREA, 2010). Investment in real estate has been shown to reduce risk; enhance returns; act as a hedge for inflation and deliver strong cash flows to the investor (Fabozzi, Gordon and Hudson-Wilson, 2003). Real estate also has been shown to have low correlation to other financial assets and thus implying a good diversifier within a mixed-asset portfolio.

However, barriers to investments in real estate by pension funds still exist. Investments in real estate are illiquid and require large sums of funds for direct investment and therefore locking out many small schemes. Direct real estate is often associated with extended periods of not being traded and every property is more often than rarely, unique (Riddiough et al., 2005). Direct real estate investment also require special management skills and worst still, there is low information transparency and have also been dogged by controversies and governance issues starting from acquisition to the disposal stage (Hoesli and Lekander, 2006; Kipanga, 2014). Although, Real Estate Investment Trusts (REITS) are considered as more liquid compared to direct real estate investments, they are still new in the Kenyan market and only one REIT (Stanlib Fahari Income REIT) has been listed. However, its performance in the stock market has been dismal.

Most governments therefore limit investment in real estate by pension funds despite its diversification benefits. For instance, in Kenya, investment in immovable property in Kenya is limited to a maximum percentage of 30 percent of the aggregate market value of the total assets of a scheme or pooled fund. Such restrictive measures may further limit scheme portfolio diversification opportunities. This paper therefore seeks to explore possibilities in which pension funds can contribute to the "big four" agenda more so investment in affordable housing.

1.2 Problem Statement

Housing is a basic human need in every society and is considered a fundamental right to every individual. It is an interdependent phenomenon that affects every facet of man and imparts on the social, physical and mental wellbeing irrespective of his/her socio-economic status, color or creed (Ayedun and

Oluwatobi, 2011). Access to decent, affordable housing is fundamental to the health and wellbeing of people and the smooth functioning of economies and thus embedded in the various international instruments including the United Nations Universal Declaration of Human Rights of 1948; the International Covenant on Economic; Social and Cultural Rights of 1966; the Istanbul Declaration and Habitat Agenda of 1966; and, the Declaration on Cities and other Human Settlements of 2001 (GOK, 2004; McKinsey Global Institute, 2014). On the same vein, the Sustainable Development Goals (SDGs), goal number 11 also aims to make cities and human settlement inclusive, safe, resilient and sustainable and governments are urged to ensure for all adequate, safe and affordable housing and basic services and to upgrade slums. However, provision of affordable housing remains a challenge in most countries, Kenya included. It has become increasingly glaring that most urban population live in dehumanizing housing environment, while those who have access to average housing do so at abnormal cost (Adjekophori, 2014; KPDA, 2018).

In Kenya, the right to decent housing is a constitutional obligation. Article 43(1)(b) of the Constitution of Kenya under the economic and social rights states that "every person has the right to accessible and adequate housing and to reasonable standards of sanitation". The Kenya Vision 2030 also articulates for adequate and decent housing for all Kenyans. The housing sector is also seen as potential driver in absorption of labour in the quest to meet the housing shortage. Similarly, the National Housing Policy for Kenya aims at achieving a state where all Kenyan households live in decent and affordable housing. Housing therefore has remained a key priority in Kenya's development agenda since independence[6].

However, to date, housing is still an outstanding agenda. Kenya, still struggle with providing decent and adequate housing to its population, more so, the poor, and the low income. In terms of home ownership, the Kenya Integrated Household Budget Survey report, 2018, indicates that nationally, 59.5% of the households live in their own dwellings while 35.4% of the households pay rent

[6] The first comprehensive Housing Policy for Kenya was developed in 1966/67 as Sessional Paper No. 5.

or lease the houses[7], 4.8% pays no rent but has consent of the owners, and 0.2% are squatting. The report also indicates that the level of home ownership in urban areas is still low. Only 26.1 percent of the households who live in urban areas reside in their own dwellings. A high proportion of households in Nairobi (86.4%) and Mombasa (82.2%) live in rented dwellings (GoK, 2018)[8].

The acute shortage of housing coupled with the rising middle class offers a viable and lucrative investment opportunity for pension schemes in Kenya. Further, addressing the housing shortage and housing affordability is not just about shoring up basic needs for the majority of the population but will also be good for the economic growth, job creation and deepening of the financial sector, and, thus growth of the pension funds. This paper therefore examines the role of pension funds in the provision of affordable housing in Kenya under the "big four" agenda.

1.3 Research Objectives:

a) To examine the opportunities, constraints and viability of provision of affordable housing by pension funds.

b) To examine the legal and regulatory framework for investment in affordable housing by pension funds.

c) To make policy recommendations based on the research findings.

1.4 Significance of the Study

The findings of this study would be useful in the policy development and formulation of appropriate legislation and guidelines for the provision of affordable housing by pension funds in Kenya, more so, under the "big four agenda". The study would also help enhance the understanding the opportunities and challenges of investment in real estate as an asset class by pension funds.

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[7] The Kenya Integrated Household Budget Survey report is based on the 2015/16 Kenya Integrated Household Budget Survey.

[8] See the Basic Report: 2015/16 Kenya Integrated Household Budget Survey (KIHBS), March 2018

2.0 LITERATURE REVIEW

Access to decent, affordable housing is so fundamental to the health and well-being of people and the smooth functioning of economies that is embedded in the United Nations Universal Declaration of Human Rights. Yet in developing and advanced economies alike, cities struggle with the dual challenges of housing their poorest citizens and providing housing at a reasonable cost for low and middle-income populations (McKinsey, 2014). It is estimated that 330 million urban households around the world live in substandard housing or are financially stretched by housing costs. In the developing world alone, over 200 million households live in slums (McKinsey, 2014).

Lack of available and accessible housing finance has been identified as one of the biggest hurdles in improving the housing conditions for lower and middle-income households. Adjekophori (2014) notes that finance constitute a fundamental centerpiece in any real estate development and that the ability of a developer to mobilize enough funds for the project determine largely the success of the development. He argues that pension funds have a pool of funds that can be used to finance real estate development.

Real estate has been the most significant alternative asset class in the portfolio of pension funds primarily due to its steady and predictable appreciation overtime; it's low correlation with other assets classes; it's strong risk adjusted performance in comparison to equities and bonds; and, its inflation hedging capabilities (Hoesli et al., 2002; Hudson-Wilson et al, 2003; Andonov, Eichholtz and Kok, 2012). Property investments have also been seen as low risk, long term and illiquid assets (Reddy, 2001). Property therefore plays a significant role in investment portfolios of pension funds as it is considered a secure income generating good capital growth investment. It is also regarded as less volatile investment than shares, providing a reliable hedge against inflation and offering diversification benefits. Real estate investment therefore is viewed as an important asset class for pension funds with attractive investment characteristics that match long term liabilities (APREA, 2010).

Literature investigating characteristics of real estate usually offer the following arguments for real estate investments: Real estate investments are useful because of their diversifications potential. Their returns are less dependent on the returns of bonds and shares (Vančura, 2012). The price of properties apart from economic factors depends on non-economic factors like population expansion or development of technology. Investment in real estate also offers other considerable advantages: it is a tangible asset with low volatility; and it generates an attractive income stream and long-term capital appreciation and strong diversification benefits compared to stocks and bonds (Leo, undated).

In terms of real estate returns and performance; empirical literature show that the performance of real estate investment by pension funds depends on the economic factors, size and location. Andonov, Eichholtz and Kok, (2012) used defined benefit data collected by CEM Benchmarking Inc. which covered 884 U.S., Canadian, European, and Australian/New Zealand pension funds which invest in direct real estate and real estate investment trusts (REITs) over the period 1990-2009. The study observed that the costs and performance of pension funds' real investments were driven three main variables: size, the choice to invest internally or externally, and geography. They found out that larger pension funds were more likely to invest in real estate internally have lower costs and higher net returns. The small funds on other hand were more likely to invest in direct real estate through external managers and funds-of-funds, but largely ignored REITs. However, the additional investment layers significantly increased their costs and disproportionately reduced their returns.

Myer et al. (1997) used appraised-based (direct) real estate wealth indices (proxied by NACRIEF index) for United States, Canada, and the United Kingdom and for several property types found a cointegrating relationship among real estate indices across the three countries and concluded that there was a common factor that creates a link among the indices. Tarbert (1998) used publicly traded indices applied cointegrating techniques to investigate diversification opportunities available to UK investors and found evidence of cointegration among sectors across regions concluding that sectoral and geographical diversification benefits within property portfolios were more limited. However, Wilson and Okunev (1996) found absence of cointegration among real estate and equity markets and among the securitized property markets in the US, UK and Australia.

Yunus (2007) on the other hand employed time series techniques to evaluate the degree of long run integration and short run dynamics among the major public property markets (in terms of market capitalization) in the US over the period 2000-2006. The study also examined the long run and the short run interactions among the corresponding major international equity markets to compare and contrast diversification benefits from exploitation of international property markets. The results showed that US investors could attain substantial diversification benefits from investing in many of the international property markets in the long-run as well as in the short-run. The short run results showed that there were relatively fewer lead-lag relationships between the US and the international property markets indicating that due to the underdeveloped state of the securitized property sector (relative to equity markets) and due to the real estate nature of these markets, the securitized property sector is less impacted by the US property market in the short run than the corresponding equity markets.

However, Yunus (2007) notes that correlation of returns are unstable over time, therefore developing portfolios solely on the correlations of returns is fraught with problems and is not appropriate for investors in real estate who are typically more interested in the long term diversification attributes of their portfolio. He also notes that even though some of the earlier research have shown that there were evidence of segmentation between the property markets and other capital markets, and among the property market themselves, recent work shows increasing tendency of the markets to commove with each other, implying that the potential benefits of adding real estate to a mixed-asset or real-estate only portfolio may be decreasing.

However, investment in real estate suffers some shortfalls; they are illiquid, needs expert management and require significant capital to build a diversified portfolio. Real estate is also characterized by large lot size, heterogeneity (partly as function of the importance of location), high management costs and high transaction costs which lead to longer holding periods than would be the norm in financial asset markets which, in turn, means that the real estate markets tend to be thinly traded (Hoesli and Lizieri, 2007). There is not any organized market focused on real estate direct trading, so finding a buyer or a seller may be difficult (Vančura, 2012).

Real estate investment is therefore perceived as a high-risk area and ill-suited to the trustees fiduciary character of pension funds. Real estate is also labor intensive and expensive to manage: demands involved in managing properties have discouraged pension fund managers, as they tend to be passive investors. Most managers and advisers of pension funds are trained in security (equity and fixed income) analysis, thus they have little or no expertise in the intricacies of real estate investment. To such manager, real estate is riskier, illiquid, difficult to value and considered long term investment in comparison with equities/securities. The real estate market is also characterized with lack of adequate information of the type needed to perform comprehensive investment analysis.

Mutero et al (2010) observes that although pension assets in East Africa constitute a large pool of funds, which forms a significant part of its GDP, pension funds have seen limited use in the housing sector owing to a number of reasons:

- Trustees and their fund managers have inadequate knowledge of housing markets, especially low-income sub-markets, and are unfamiliar with associated investment risks. The pension funds have scanty knowledge of housing micro-finance and the incremental construction process that is commonly used by the vast majority of households to improve their housing;
- The capital markets in the region are under-developed, limiting the investment options open to pension schemes.
- Some pension funds are too small to set aside funds for the lumpy investments required to acquire housing and property assets.
- A number of private schemes face substantial liabilities in respect of members nearing retirement and cannot therefore tie-up their funds in illiquid investments.
- Pricing of pension funds often makes them unattractive for mortgage lending particularly in settings where government papers offers higher attractive yields.

- The institutional capacity is lacking to utilize pension funds for housing especially for purposes of addressing the needs of low-income groups and
- The low coverage of pension schemes, severely limiting their reach.

3.0 METHODOLOGY AND SOURCE OF DATA

The study utilized both qualitative and quantitative data. A qualitative study involving trustees of retirement benefits schemes was undertaken. The secondary data was sourced from RBA documents and database. The primary data was collected through in-depth interviews with selected trustees. The samples were drawn from trustees of selected schemes which had invested in property in 2017. The trustees of the selected schemes were conducted through letters and follow up telephone calls. The consent of the respondents was sought and were informed on the objects and the dates of the study.

A semi–structured questionnaire was used to collect information from the trustees. The questionnaire was designed to elicit information/views from the respondent pertaining scheme investment and more so property investment and their views on affordable housing. The in-depth interviews preferred because they provide much more detailed information than what would be available through other data collection methods such as surveys. In-depth interviews also provide a relaxed atmosphere in which to collect information where the respondents may feel more comfortable having a conversation with the interviewer about a subject as opposed to filling a questionnaire (Boyce and Neale, 2006). In-depth interviews were also used to explore the respondents' point of views and perspectives given the uniqueness and complexity of real estate investment and investment in affordable housing. The information collected through the interviews was supplemented with secondary data collected from RBA database in order to enrich the findings. Multiple sources of data was used to facilitate triangulation of results so as to improve validity and reliability considering that most data was qualitative.

4.0 DATA ANALYSIS, FINDINGS AND DISCUSSION

The section provides a detailed discussion of the findings from the in-depth interviews with trustees and internal administrators.

4.1 Findings and Discussion of the In-depth Interviews

This section presents the findings of the in-depth interviews carried out with selected trustees of schemes which had invested in property in the year 2017. A semi structured questionnaire was used in the interview in order to capture the pertinent issues in property investments and to address the objectives of the study. Some of the issues discussed in the interviews included but not limited to: the general investment environment in Kenya; investment in property; and investment in affordable housing.

4.1.1 In-depth Interviews with Trustees of Schemes

An in-depth interview with trustees of schemes which had invested in property in the year 2017 was carried out. Trustees and internal administrators of 22 schemes which had invested in property were interviewed. A range of questions touching on the general investment environment of pension funds in Kenya and specific questions on property investments housing were asked. Special focus was given to investment in affordable housing. The interviews were semi-structured and an interview guide was used to ensure that the objectives of the study are covered and capture the relevant respondents' views, opinions and perspectives in regards to property investments by pension funds. The areas covered in the interview include the general investment environment in Kenya; investment in immovable property; and investment in affordable housing. The following findings and observations were made:

4.1.1.1 Investment Environment

Most of the respondents noted that the general investment environment was conducive to a large extent and the available investment classes were adequate. However, some of the respondents noted that the investment environment was harsh and majority of the investments yielded minimal returns. They also lamented that the available investment assets were not adequate and the various regulating entities had not done enough to protect the investors. They cited the case of failure of Chase Bank and Imperial bank where schemes lost money. They also noted that the stock market was shallow and only few companies were listed and a small number were actively being traded. The stock market also is highly volatile and unpredictable and dominated by Banks and one Telecommunication Company. The pension assets investments were also concentrated in a few assets mainly government securities and quoted equities.

On the investment limits, the trustees noted investments limits were necessary to bring sanity in the retirement benefits sector. They also noted that certain investments like property had sentimental value and some trustees may invest in it without considering the interests of the members. The ceilings are quite good since they help trustees exercise caution in investments as one trustee observed that, "*The scheme wanted to invest in hostels, however, after their analysis they realized it wasn't going to be feasible since 30 percent of the fund value would not be enough to finish the project*".

4.1.1.2 Factors Considered when investing Scheme funds

The trustees mentioned the following as some of the factors put into considerations when investing pension funds:

- Safety of Capital/Capital Preservation- the investment should have the least possible level of risk of capital loss.
- Growth potential – the investments offering competitive yield to the fund with reasonable risk
- Liquidity -the ease of converting the investments back to cash when arises
- Volatility
- Availability of Information - the availability/lack of information regarding a particular investment is considered.
- Risks and Return on investment:
- The scheme objectives.
- The average age of the scheme members

- Regulatory Requirements
- Members Risk Profile.
- Scheme Investment Policy Statement (IPS)

4.1.1.3 Investment in Immovable Property

From the findings, schemes had invested in various types of immovable properties ranging from commercial (Office) buildings, residential houses to fallow land. Some schemes had properties in various regions even outside their geographical location. Nairobi and Mombasa were the most favored locations. Some had invested in land for speculation. Trustees observed that immovable property had sentimental value and most people would want to invest in it. Some of the sentiments by trustees included *"With land you can never go wrong"*. Without investment limits such sentiments may adversely affect the interests of the member. Trustees also noted that most sponsors use property to finance scheme deficits. However, when the scheme takes over property from the sponsors there are certain unanticipated costs, which include insurance and security. The repairs and maintenance costs at times are punitive to the scheme. To some of the trustees, property was not making sense, the returns are low and in some cases negative. The uptake of office space is low therefore investing in buildings that are half occupied have proved detrimental for some schemes.

In terms of management of the properties, some of the trustees had hired property managers to manage commercial properties, while others still managed the property investments internally. Most trustees had already implemented the RBA directive on property management and had ceded some of the properties, which were managed internally to fund managers. However, for the case of residential houses, in some cases, the tenants were reluctant to accept the changes and the trustees had to explain to them the statutory requirements and the need for tenancy agreement.

The trustees also involved property specialists such as land valuers, quantity surveyors, property managers when purchasing and management of the property. They noted that the specialist were procured through a competitive process. The trustees noted that the professional costs were high and were not regulated by the Authority. Some of the schemes had also developed long-term plans and strategies on property investment. Some plans spanned 10 years. Other schemes were already considering partnerships with other investors where they had land in order to develop.

On returns on property compared to other investments vehicles, the opinions were mixed and varied. Some trustees noted that the combined return (rental income and capital appreciation) were higher than returns from other investments. They observed that property provided a stable return year on year cushioning the fund from volatility experience in the financial instruments. However, some trustees noted that the returns from property were low and it was hard to quantify the return. They observed that there was an over supply especially of office space leading to vacant spaces in some of the with commercial properties held by schemes.

4.1.1.4 Affordable housing

On the investment on affordable housing, the opinion of the trustees were mixed and varied. Most of the trustees were receptive on the investment of affordable housing and they observed that the government agenda on affordable housing was a noble idea and could go a long way in addressing the housing deficit and inaccessibility of home ownership for the majority of workers. They observed that the agenda on affordable housing can be best implemented through a special purpose vehicle (SPV) or through a joint venture. However, some trustees were skeptical and had reservations. They observed that the pension funds had very little role to play in the big four agenda, more so affordable housing. They also observed that it was difficult for trustees to balance the scheme investment objectives and the social good and therefore, government was in better position to implement affordable housing.

They further, observed that property investments were very sensitive and the housing market was largely unregulated and thus giving room to unscrupulous developers who are driven by profits to charge exorbitant prices and introduce excessive speculation. They also noted that investment in affordable housing could only be done by big schemes and that small schemes had no financial muscle to undertake massive housing projects. They also noted that the management of property was hectic and cumbersome and the trustees were not full time employees of the scheme. Adequate attention may not be given project. They also saw the management of property as too much work for trustees and may be risky. Some of the trustees sentiments included: *"Affordable housing is a good idea but how to implement is the issue".*

On whether their schemes would consider investing in affordable housing, they noted that government was in a better position to undertake affordable housing projects since schemes have to give returns to members. They note that the cost of construction was high and unreachable for small schemes. They also noted that the government in its spirit of promoting housing agenda should also develop regulations to minimize malpractices in the housing sector. They also noted that there is need to develop a conducive environment for both the developers and the buyers. The trustees also noted that it was difficult to balance the scheme investment objective and the social need. They also noted that they would consider investing in affordable housing if government issued a housing bond at competitive rates. The trustees noted that the schemes can play a critical role in providing financing. However, there is need a well-structured way with a guarantee from the government to avoid schemes losing money**.** *"It's a noble idea if implemented to the letter with high integrity"..*

On the legislative framework to support the investment in the "big four agenda", they observed that the legislative framework does not fully support the agenda on affordable housing. There were no guidelines to support the investment. They noted that the current legislative framework provides for a blanket investment in property without any specificity. Trustees observed that schemes should be provided with incentives to invest in affordable houses

4.1.1.5 Factors Schemes would Consider when Investing in Affordable Housing

The trustees mentioned the following factors as some of the considerations made when investing in affordable housing :

- Ease of entry and exit
- Potential yields to the scheme
- Geographical location of the project
- The demand for affordable houses: how quickly will the houses be disposed so that the scheme funds are not tied up.
- Tenure
- Guarantee by government
- Availability of land
- Development risks

4.1.1.6 Role of Trustees in investment of Scheme Funds

Most trustees noted that they did not play an active role in the investment of the scheme assets. However, they had a chance on quarterly basis to review the investment decisions undertaken by the fund manager and discuss the available opportunities. Other trustees had monthly briefs from the property agents and some were utilizing technology such as WhatsApp groups comprising of trustees, the fund manager and other service providers where the monthly briefs are shared for comments. The trustees also observed that they are not investment experts and as such, the investment role is delegated to the fund manager.

4.1.1.7 Challenges

Some of the challenges faced by the trustees when investing scheme funds and affordable housing included:

- Limited investment options: Lack of alternative investment products that meet the safety and security needs of pension funds whilst satisfying government's need to fund infrastructure and other social amenities
- Lack of adequate information: the trustees noted that they had scanty information on the opportunities available and mode of participation in investment in affordable housing. They observed that they should be forums for educating trustees so that they can understand the risks, returns and long term impact on the future of their schemes. High minimum investment requirements e.g. private equity and property
- Inadequate legislative and regulatory framework to support property investment. There are no sufficient incentives for the schemes to invest in the big four agenda".
- Land is expensive: There are vested interests on issues of land and as such, there is price variations when it comes to institutional buyers such as schemes. The local sellers have attitude towards institutional buyers hence they raise prices which is a different case for individual buyers. Government should set aside land for affordable housing and reduce taxes on construction materials. The government need also to provide the support infrastructure such as transport.
- Unremitted contributions
- lack of necessary expertise in some areas of investments
- High cost of building materials: government need to provide incentives to schemes for affordable housing such as tax exemptions on building materials

5.0 Conclusion and Recommendations

Affordable housing is a noble idea if implemented well. The investment environment should be made attractive and good governance structures should be put in place. A clear regulatory framework on how pension schemes invest in affordable housing should be put in place. The study proposes the following interventions to facilitate the investment of scheme funds in affordable housing:

- **Sensitization of Trustees**: from the findings, the trustees have scanty information on the opportunities available and the mode of participation in investment in affordable housing. There is therefore a need for forums to sensitize trustees on the available investment opportunities more so on affordable housing so that they can understand the risks and returns and the long-term impact on the schemes and the overall development of the economy and support of the big four agenda.

- **Property Regulations**: property in Kenya is a contentious issue, has sentimental values, and therefore need to be properly regulated. There is need for a clear legislative framework for the property investment by pension fund funds. There is need for the Authority to develop regulations/guidelines guide the investment in property in order to minimize malpractices in the property investment and safeguard the interest of the members. There is also need for a clear framework on what constitute affordable housing in order to create a distinction between conventional property development and affordable housing.

- **Support for Innovative Investment vehicles/Products:** there is need for the Authority to put in place a conducive environment to support innovative products and facilitate pension funds to invest in the big four project. One such product may include the "*housing bond*" specifically dedicated for the development of affordable housing. The legislation need to enable smaller schemes to pool funds and develop affordable housing. The government need to some form of guarantee that the houses will be taken up. As one trustee put it "*If we can have a guaranteed return like in the case of an infrastructure bond then pension funds can invest to see through the funding needs of the project*".

- **Incentives**: Land expensive and building material are expensive. The government should set aside land for affordable housing and reduce taxes on construction materials.

- **Capital Market Deepening**: Given that a small number of companies are listed in the stock exchange and only a few are being actively, there is need to deepen the market so as to allow schemes to adequately diversify their portfolio. The is need for flexible listing requirements to allow small and medium enterprises (SMEs) to list in the stock exchange. There is also need for more concessions on issuing of corporate debt in particular targeted to affordable housing projects without compromising corporate governance.

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