



HOUSING FUND: THE GOOD & THE BAD

The Housing Fund

Housing is a basic human right, yet it remains out of reach for many. Government housing funds have emerged as a promising solution to address the growing housing crisis, but are they truly the answer to the problem? In this article, we explore the potential benefits of government housing funds, as well as the challenges they face in implementation. Join us as we dive into the world of government housing funds and examine their impact on communities and individuals alike.

The National Development Housing Fund is a crucial program that aims to provide affordable housing to low-income earners in a country. This initiative is often championed by governments as part of their efforts towards poverty reduction, promoting social welfare and enhancing economic development.

Brief History

The National Housing Development Fund (NHDF) was established in 2018 following its gazettelement into the Finance Act, 2018. However, this was put to a stop by a court order which suspended implementation of the fund. In December 2019, the National Treasury under the President's directive made the NHDF voluntary.

The percentage deductible from employer and employee stood at 1.5% each for a total

of 3% monthly contributions. The initial regulation allowed members access to their contributions if they qualified for affordable housing, or else withdraw their contributions after 15 years or upon retirement (whichever came first). At that point, the contributor could transfer his/her contributions plus return on investment to a pension scheme, a dependent or to another person eligible for affordable housing, or they could withdraw it in cash and be subjected to tax.

Synopsis of Government Housing

The National Treasury, as part of the Finance Bill, 2023 has re-introduced the National Housing Development Fund. The Treasury has proposed a 3% deduction from employees' base pay, with the employer matching another 3%. The maximum amount that can be contributed to the housing fund is capped at KES 5,000. Employees who qualify for affordable housing will use their accrued contributions to purchase a home under the affordable housing scheme. Employees who do not meet the affordable housing criteria, may access their contributions after 7 years or upon retirement (whichever occurs earlier). Contributors will then have the option of transferring their accrued benefits to a pension scheme registered with the Retirement Benefits Authority, a person registered and qualified for affordable housing, their spouse or dependent children, or withdraw their contributions and be subject to the prevailing tax rates.

On approval, the contributions will begin with civil servants and gradually expand to encompass workers in the formal and informal sectors. The re-introduction of the fund is intended to help the country manage its foreign debt by borrowing locally since the government's plan to increase members' contributions to the National Social Security Fund (NSSF) has helped the country increase its savings.

The announcement of the housing fund elicited mixed reactions in the country with most individuals in gainful employment citing existing high statutory deductions as the primary reason for rejecting the housing fund. The mandatory 3% salary cut without any commensurate increment in emoluments, coupled with the high cost of living has made Kenyans resistant towards the fund. Others expressed concerns about the quality and location of the housing units fearing that the units may be subpar and out of reach. Many are of the opinion that the National Development Housing Fund should be made voluntary since a large number of people will not benefit from the affordable housing scheme.

Investing in a government housing fund may come with risks and limitations but can also be a great investment opportunity. While weighing the pros and cons is a critical step in making any decision, it is essential to do so carefully to ensure that the ultimate decision is well-informed and aligns with your priorities.

Benefits of Government Housing Fund

Stable Returns: Government housing investments offer stable and predictable returns, as they are backed by the government's financial resources and stable rental income from tenants.

Low Risk: The government is a reliable and secure borrower, which means that investments in government housing are generally low-risk. In addition, government housing projects are often designed to provide affordable housing, which creates a consistent demand for rental units.

Social Impact: Investing in government housing allows investors to make a positive impact on society by helping to provide affordable housing to people in need. This can be a rewarding aspect of the investment and can also help to improve the surrounding communities.

Diversification: Government housing investments can provide diversification to an investor's portfolio, as they are often uncorrelated with other investment types, such as stocks or bonds.

Long-term Investment: Investing in government housing projects can provide a stable and long-term source of income for investors, which is particularly attractive to those looking for steady and reliable returns over time.

Increased Affordability: A government housing fund can increase access to affordable housing by providing subsidies, grants, or low-interest loans to eligible households. This can help to make housing more affordable and reduce the housing cost burden on low- and moderate-income families as well as provide an inexpensive investment opportunity for high-income earners.

Stimulate Economic Growth: A government housing fund can stimulate economic growth by creating jobs in the construction, finance and real estate industries. The fund can also provide economic benefits to local communities by increasing property values, generating tax revenue and promoting revitalization of distressed neighborhoods.

Challenges Of Government Housing Fund



- **Regulatory Risks:** Government housing funds are subject to regulatory changes and may be affected by changes in government policies and priorities. This can create uncertainty and make it more difficult to predict returns.
- **Stringent Eligibility Requirements:** Eligibility requirements for housing funds can be strict and some people may be excluded from participating due to factors like income, credit history, or immigration status.
- **Market Risks:** Like any investment opportunity, government housing funds are subject to market risks such as inflation and interest rate changes. This means that their value can fluctuate based on economic and market conditions. While these funds may offer relatively stable returns, they are not immune to market volatility.
- **Limited Liquidity:** Government housing funds may have restricted liquidity, making it difficult to obtain cash or liquidate investments rapidly. This may make these products less appealing to investors who require greater flexibility.

- **Bureaucracy and Red Tape:** Government housing funds may be subject to bureaucratic processes and regulations, which can slow down the implementation of affordable housing initiatives. This can lead to delays in providing housing assistance to those who need it most.
- **Penalties:** If individuals withdraw money from their housing fund before reaching their goal, they may face penalties or fees.
- **Risk of Mismanagement and Corruption:** As with any government program, there is a risk of mismanagement and corruption in the administration of government housing funds. This can lead to funds being misused or diverted, which can undermine the effectiveness of affordable housing initiatives. Mismanagement or fraudulent activities can lead to losses for investors.
- **Dependence on Funding:** Government housing funds are typically funded by tax revenue or other government sources, which can be subject to political and economic fluctuations. This means that there is a risk that funding for the housing fund could be reduced or eliminated, leaving affordable housing initiatives without necessary support.

SUMMARY

In conclusion, the government housing fund is a powerful tool for addressing housing affordability and accessibility challenges. Government housing can be a promising investment opportunity for those looking for a low risk, stable and socially impactful investment option. However like any investment, it is important to carefully research and assess the potential risks and rewards before investing.

Moving forward, it is important for policymakers and stakeholders to work together to address the challenges facing the housing fund and ensure that it is able to fulfill its mission of providing safe and affordable housing for all. With the right strategies in place, a government housing fund can be a powerful force for positive change.

We hope that this article has been informative and has encouraged us to remain vigilant as we continue to push for progress and work towards a brighter, more equitable future.

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