

Can Pension Capital Actually Build Anything?

*The Rulebook Constraint Nobody Is Discussing
and Why It Deserves a Deliberate Answer*

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Over the past two articles in this series, I have made an argument in two parts. First, that Nigeria's pension reforms have unlocked the largest pool of institutional capital in the country's history, and that the market is responding with a new generation of real estate vehicles. Second, that the gap between replacement cost and investment value will be resolved largely through those vehicles, as institutional capital compresses yields and reprices standing assets.

There is a third question, and it is the one nobody is asking: can any of this capital actually build anything?

The honest answer, under the rules as they currently stand, is: very little. And that is not an accident of drafting. It is a policy choice - one that deserves to be examined deliberately rather than inherited by default.

THE CONSTRAINT

The architecture works in two layers. PenCom's Revised Regulation prohibits RSA funds from investing directly in real estate; pension exposure must flow through regulated instruments - REITs, mortgage-backed securities and similar vehicles. So, the composition rules of those vehicles determine what pension capital can ultimately touch.

That composition is governed by the SEC's rules on Real Estate Investment Schemes, and the operative provisions are these. A REIT must hold a minimum of 75 per cent of its total assets in "Real Estate Assets": a term the rules define as developed, operational and income-generating properties.

Development-stage assets cannot count toward the 75 per cent by definition. They must fit within the remaining 25 per cent, alongside real estate securities and everything else non-core. And a second test binds harder still: a scheme must derive at least 90 per cent of its revenue, excluding capital gains, from rental and dividend income.

A building under construction produces no rent. A REIT carrying meaningful development exposure risks breaching the revenue test well before it

exhausts the 25 per cent asset headroom.

The Investments and Securities Act 2025 did not change this. The Act rebuilt the capital-raising architecture and delegated composition detail to SEC rules. The SEC's April 2025 amendments revised private equity fund rules and CIS procedure; the only real-estate-scheme change was procedural, on trust deed amendments. The asset tests carried over intact.

The result is an elegant irony. Nigeria has spent two years constructing a machine for channelling pension capital into real estate - new Act, new pension regulation, over ₦750 billion of new vehicle capacity. And the rulebook points nearly all of it at buildings that already exist.

WHY THE CONSTRAINT EXISTS AND WHY IT IS HALF RIGHT

Let me be fair to the rule, because it embodies a serious idea. Development is where real estate risk lives: construction cost overruns, title disputes, contractor failure, off-plan sales that never complete.

Nigerian savers have lost money to every one of these, and a regulator charged with protecting retirement assets is right to be cautious about exposing them to construction risk through vehicles marketed as income products. The 75/25 architecture, borrowed from mature REIT markets, exists precisely because a REIT is supposed to be a rent-collecting machine, not a developer in disguise.

But a rule calibrated for investor protection has a supply-side consequence that Nigeria, of all markets, cannot ignore. We are a country with a housing deficit measured in millions of units, a stalled Grade A pipeline, and a construction cost environment in which returns struggle at prevailing funding costs.

The one pool of capital patient enough and large enough to change that arithmetic is now arriving. Under the current rules, it will buy existing buildings, compress yields, and enrich the owners of standing assets. What it will not do, at any meaningful scale, is finance the next generation of supply.

Repricing old buildings is not nothing. It restores the exit values on which development ultimately

depends. But if that is all the reform achieves, we will have built a sophisticated mechanism for transferring wealth to incumbent asset owners while the deficit grows.

WHAT A DELIBERATE ANSWER LOOKS LIKE

The question is not whether to abandon investor protection. It is whether the current calibration is the right one, and there are at least three routes to a better answer.

The first is a measured widening: development exposure of 30 to 40 per cent of assets for REITs that meet enhanced criteria: pre-let thresholds, fixed-price construction contracts, completion guarantees, sponsor co-investment. The second is a distinct vehicle class: a development REIT or real estate development fund offered to qualified investors only, under the specialised scheme framework the ISA 2025 has already created. The third is the blended model MREIF has demonstrated - concessional public capital absorbing first loss so that institutional capital can fund construction at acceptable risk. That template extends naturally beyond mortgages to build-to-rent, student housing and logistics.

None of this is radical. All of it is within the SEC's existing rule-making power.

THE ASK

The SEC will, in due course, consolidate its rules under the new Act. The development question should be answered on purpose - with the pension industry, the valuation profession and the development community in the room - rather than carried forward by default.

The capital has arrived. The vehicles are multiplying. Whether any of it builds anything is now a choice. We should make it deliberately.

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