Where the Money Is

Pension Funds

The sleeping giants of affordable housing

By Mark Fogarty

225 Centre Street in Boston is a multifamily project of the Housing Investment Trust of AFL-CIO. The project combines more than 100 affordable and workforce rentals with 17,000 square feet of commercial space. The pension capital investment fund set up separate projects for the housing and commercial sections, and used both Low Income Housing Tax Credits and New Markets Tax Credits.

Pension funds have long been the sleeping giants of housing. That's because while they have a significant share in the sector, real estate is usually a fairly small part of their overall portfolios and so doesn't loom very large on their radar screens. But retirement funds have a lot of money to invest and have carved out a significant footprint in financing affordable and workforce housing.

All told, U.S. pension funds account for more than $20 trillion in assets, so even a small portion of that invested in affordable single family or multifamily projects has a large impact.

And it's a big tent. There is a wide variety of public and private pension funds with affordable housing investments. Ken Lore, attorney for the AFL-CIO Housing Investment Trust, listed pension funds or their investment arms of labor unions, like AFL-CIO; of municipalities (New York City in particular is very active in pension affordable housing activity); state groups, like CalPERS (state workers) and CalSTRS (state teachers) in California and OPERS (public workers) in Ohio; large insurers that create separate accounts, like Mass Mutual and New York Life; and firms like TIAA, which is an investor for funds. Religious group pension funds also show an interest in affordable and workforce housing.

"All have programs that promote affordable housing," Lore said. Retirement fund affordable housing money can come from direct investors (pension funds themselves) or from investors for third parties, he said.

A Hot Pension AH Market

New York City is especially active. Just this past fall, the NYC pension funds (there are five of them: the New York City Employees' Retirement System, Teachers' Retirement System, New York City Police Pension Fund, New York City Fire Department Pension Fund and the Board of Education Retirement System) announced a

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$450 million affordable housing program to support and create tens of thousands of homes and housing units, including a first-ever set aside for housing veterans.

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At least $5 million will go towards the veterans' program yearly, according to Stringer.

The money will be invested from a separate account managed by RBC Global Asset Management's Access Capital Community Investment Strategy. $150 million of it is new money, while $300 million comes from previous commitments that have been renewed.

While this particular program is an affordable mortgage program (the money will be used to purchase mortgages), the city pensions have been active in the rental market as well. They have invested $170 million through the RBC account to finance 33,390 affordable multifamily units.

On the multifamily side, the nonprofit Community Preservation Corp. is another big part of the city effort, lending pension money to multifamily developers for affordable housing. With a total portfolio of $9.7 billion, it has financed more than 170,000 affordable housing units. CPC lends money for rental housing both in the city and in communities across New York state.

Started in 1974 by the city and a consortium of banks, CPC offers financing from acquisition and refinancing to construction and permanent loans. One example is 160 West 142nd Street, in the Harlem neighborhood of New York's Manhattan borough. CPC used a $2.2 million Freddie Mac small balance loan to refinance 22 units of moderate-income housing.

When the A13 Accelerating Impact Investing Initiative did a catalogue of pension fund ETIs (these are investments with a purpose, like economic development or community development, in addition to achieving investor return), it listed 118 ETIs by various pension funds, with some of the funds having more than one ETI. (The A13 is a partnership between Enterprise Community Partners and Insight at Pacific Community Ventures.)

Of the 118 ETIs, nearly 30 have an affordable housing component. And their impact is significant, with an aggregate investment of about $25 billion.

Looking at just a few of these affordable housing pension fund ETIs shows a variety of sponsors and geographies:

- The **Positive Social Purpose Lending Program** of the United Methodist Church's division of the general board of pension and health benefits: $982 million to provide affordable housing and community development for disadvantaged communities.
- **Community Preservation Corp.**, of the New York State Common Retirement Fund and The New York City Employee Retirement System: $9.7 billion to provide financing for affordable housing projects for families in low- to moderate-income communities in New York.
- The **Middle Class American Dream Program** of the Massachusetts State Teachers and Employees Retirement System: $125 million to fill a capital need towards home ownership for underserved communities that traditional markets wouldn't satisfy.
- The **New York City Housing Authority Project H.O.M.E.** of the New York City Pension Fund Systems: $100 million for expanding affordable housing access by leveraging NYCHA's real estate assets.
- The **Housing Investment Trust New York Community Investment Initiative** program of the

AFL-CIO (along with five New York City retirement systems): $898 million to create or preserve affordable and workforce housing and provide union construction jobs.

A Vision Legacy

Eric Price, executive vice president of the AFL-CIO Housing Investment Trust (HIT), said the effort started as an idea by legendary labor leader George Meany originally called the Mortgage Investment Trust (MIT). Meany's vision was to "meet America's tremendous unmet housing needs and to replace deteriorating housing units."

The MIT became the Housing Investment Trust (HIT) in the 1980s. The ideas behind it, according to Price, were to "create prudent investments, create affordable housing opportunities and create union labor opportunities."

HIT has racked up some impressive numbers since it got its start in 1984. They include 122,984 housing units financed, two thirds of them for affordable and workforce housing. About 435 affordable rental projects have been financed.

The HIT has done projects around the country. Logically, they have done more in areas where there are more unions and therefore union jobs, in the Midwest especially. "Not so much in the South," Price said.

This includes Chicago, Minneapolis, all of Minnesota and St. Louis. "We are looking at deals in Detroit and Ohio currently," he said. "New Jersey, New York and Connecticut are ongoing markets for us. We do deals on the West Coast, usually Northern California but also a few deals in Oregon."

The trust extensively uses private activity bonds and FHA 221(d)(4) 40-year multifamily construction loans. It partners with both for profit and nonprofit developers. "We purchase the bonds. They sell equity to investors," Price said. All have affordable housing components, and some have market-rate units, though not at the high end, more usually in the 150 percent of area median income segment.

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A Noteworthy Project

Asked to name a noteworthy project, Price pointed to 225 Centre Street, Boston. This project used both Low Income Housing Tax Credits and New Markets Tax Credits. "That's difficult, but there is a way if 25 percent of the revenue is commercial," said Price. "We treated it as two projects." The first phase of an overall reclamation of Boston's Jackson Square area, 225 Centre Street has 103 rental units and 17,000 square feet of commercial space.

The trust has a community development entity affiliate, Building America, to access NMTC financing.

Going forward, Washington, DC-based HIT has a number of transactions in the works in the Midwest, as in Chicago, Cleveland, Minnesota and Detroit. "We have a heavy emphasis on those markets," he said.

"They do more of this than everybody, by far," said Lore, HIT's attorney, noting the group's $6 billion asset portfolio.

Lore noted, however, that pension funds in general are constrained and can't invest in affordable housing at will. "They need to get a competitive return," he said.

But "they like to do that (affordable housing) in situations where they can make a prudent investment," he said.

"Many do. They do have an impact." TCA

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Accelerating Impact Investing Initiative A13
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