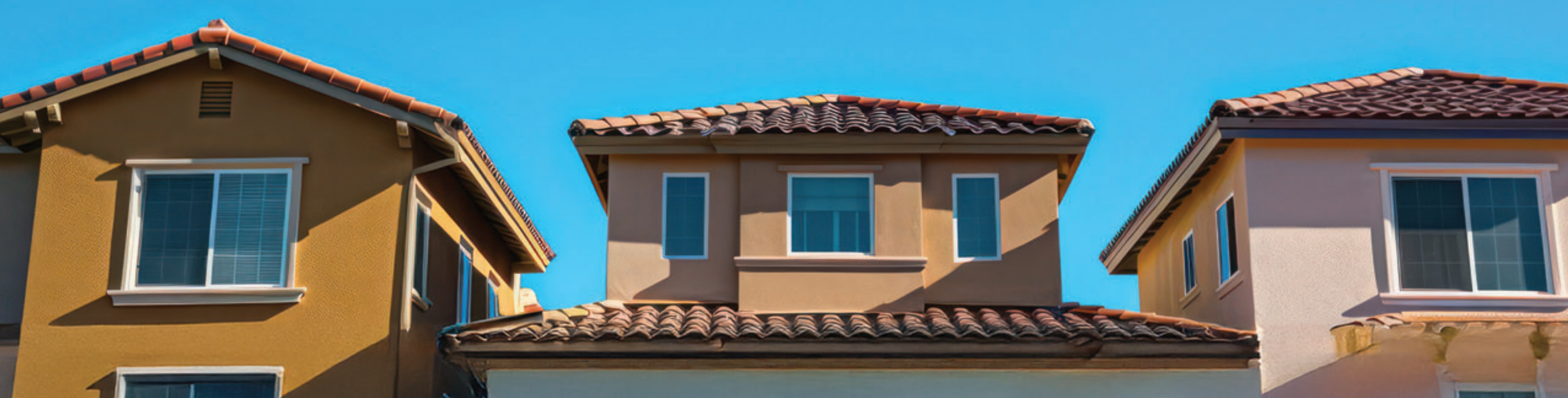
INVESTING FOR THE COMMON GOOD:

HOW WORKERS' PENSIONS CAN HELP SOLVE THE HOUSING CRISIS

Americans for Financial Reform Education Fund

GEORGETOWN UNIVERSITY
Kalmanovitz Initiative for Labor and the Working Poor



About

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Georgetown University's Kalmanovitz Initiative for Labor and the Working Poor empowers working people to build an equitable, sustainable, and democratic economy through envisioning and creating new resources and strategies. As a labor center in the nation's capital, we convene, research, educate, and mobilize for economic and racial justice and the common good informed by the Catholic and Jesuit traditions of worker justice. We bring together students, workers, scholars, labor and community organizations, activists, policymakers, and allies to incubate new ideas and transformative initiatives.

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Executive Summary

Community and labor leaders are organizing to increase the availability of affordable housing as a key component to thriving local economies. While there is a rich history of pension fund investment in vehicles that finance affordable housing, many pension assets are invested by extractive private equity firms that have accelerated the housing crisis by raising rents to unaffordable prices, crowding out moderate income homebuyers, and failing to adequately maintain units in the pursuit of maximizing short-term financial returns.

Pensions can make investments in affordable housing that are consistent with their fiduciary duties to their beneficiaries. They have enormous resources at their disposal to do so, with **over $7.8 trillion total in public sector and private sector union members' pensions combined.**[1,2,3] Not only could these investments provide financial returns and generate healthier living conditions for working families and their communities, but pro-social outcomes of union-built housing and easing of the housing crisis can buttress public support for public employer contributions to pensions.

As labor and community leaders demand more affordable housing, pension trustees and beneficiaries are ideally positioned to provide leadership at pension funds to allocate investments to affordable housing vehicles that create and sustain climate safe, worker friendly, thriving communities. Just as funds are adopting labor standards for their investment managers to uphold in the companies they manage, they can adopt housing standards, as have been adopted by funds in California, New York, and Canada.

This report explores several constructive ways that pension funds can invest in affordable housing and take power back from the extractive and destructive parts of the financial sector. Though private equity investments and other speculative models are often presented as the only way pension funds can earn enough to pay their benefits, the record shows both that this promise is often unrealized, and that there are many possible alternatives.

- Philadelphia, New York, and King County (Seattle), and more have issued taxable municipal bonds for housing that have yields and security suitable for purchase by pension funds.
- Pension funds in San Francisco, New York, Quebec, England, Australia, and more have made direct investments in affordable housing. Labor pension funds in New York and San Francisco were vital to the growth of co-op housing in both those cities.
- The AFL-CIO Housing Investment Trust has been successfully investing pension funds into affordable housing for almost 50 years, has ample capacity for growth, and offers potential for emulation.
- Several large pension funds, in California, Colorado, the Netherlands, and more have established in-house private investment managers to make private investments in a constructive and sustainable way.
- The main Wisconsin public employee fund has an in-house private credit operation to make direct loans to corporations that meet state policy goals, like creating good jobs.

Several of these required creating new businesses, or new financial institutions. The nation's financial landscape is filled with public and co-operative institutions created to fill comparable voids left by the private sector. These include a state-owned bank in North Dakota, a co-operative insurance underwriter in Rhode Island, a mutually-owned bond insurer operating nationally, and more.

In addition, this report proposes the creation of a co-operative asset manager to serve the investment needs of a collection of pension funds in a sustainable manner. Such a manager can drive standards and accountability in full alignment with the funds' fiduciary duty and their needs for long-term stable risk-adjusted returns. Such an asset manager could also be a source of large scale investment in affordable housing.

None of the ideas presented here are extreme or even new. They all have working models to copy, either in the US or in other countries. It is clear that workers, whose trillions in capital fund the nation's pension systems, are not well served by much of today's investment menu. But there are practical and plausible alternatives. Pension system managers and trustees can and should take action to use—and embrace—them.

Workers' Pensions
and the Housing Crisis

For decades, working-class families have grappled with the harsh reality of housing instability, as markets have commodified housing to generate profits and wealth. These for-profit systems have fueled predatory practices, gentrification, and displacement, ripping apart the stability and cohesion of our neighborhoods—and our neighbors. Today, the crisis is at one of its worst points: millions of people in the United States face staggering and escalating housing costs, and a constant threat of eviction and homelessness. As a report from Harvard put it, "In 2022, half of all US renters were cost burdened. This all-time high of 22.4 million renter households spent more than 30 percent of their income on rent and utilities."[4]

Tenants, workers, and homeowners are fighting back to increase the availability of affordable housing. Pension funds, which are a giant source of private capital, could help advance this goal, playing a key role in shifting from a speculative to a sustainable housing financing model. At present, however, too much control of workers' money is with financial intermediaries that are focused entirely on blockbuster short-term profits. It does not have to be this way.

The central focus of this paper is to lay out a set of possible positive alternative models through which pension fund investments can contribute to creating and maintaining affordable housing. It highlights approaches used in various parts of the US in earlier decades, as well as models being tried in limited ways in some places in the US and abroad today. These approaches can help meet housing needs, provide workers with a steady retirement, and cut out extractive middlemen. They would redirect resources to positive outcomes for workers, give workers pension funds more power to shape the impact of their investments, and contribute to broad financial stability for their participants and their communities. `

To help put these alternatives in context, the paper begins with a look at current investment practices, and in particular at the impact of pension funds' overreliance on extractive asset managers and private equity on the exacerbation of the housing crisis. It talks about how to understand the "fiduciary duty" of care for their interests that pension trustees and managers owe funds beneficiaries, and it briefly reviews efforts to improve outcomes by attaching standards to pension fund dollars for individual assets within the current investment framework.

When homes become financial assets

As the housing crisis has deepened over the past decade, a growing share of financial markets in the US have shifted from publicly traded to privately held. Private financial markets have tripled in size over the past decade and now represent over $26 trillion in gross assets.[5] In 2021, private markets produced four times as much in capital as new stock issuances. All that money has to go somewhere, and unfortunately for many, a great deal has flowed into the housing market. In recent years, private asset managers like Blackstone, State Street, and BlackRock have become the largest landlords in the United States, making housing more expensive and lower quality around the country in order to extract money for themselves.[6]

The financialization of housing creates pressure on affordability, as housing becomes an investment asset bought and sold with little or no regard to its primary use. Further, there are investing practices that actively make the housing problem worse. Funds making money by investing in companies that generally raise rents as high as possible; charging numerous junk fees; neglecting maintenance in favor of spending money on dividends; systematically evicting families and holding units open are just a few examples. The firms take advantage of downturns to snap up housing when it is cheap — frequently taking those opportunities from first time homeowners and other owners who would maintain affordability.

Housing affordability is a labor issue.[7] Workers are often tenants, and homeowners are also affected since private equity's incursion into housing markets raises prices for everyone while targeting the homes that working families, and in particular union members, want to purchase - affordable, in neighborhoods with good schools and accessibility to transit. From a labor perspective, housing is vital, not only for issues of economic fairness, but because housing pressures are often the enemy of winning strikes, a point explicitly made by a studio executive the 2023 Writers' Guild of America strike: "The endgame is to allow things to drag on until union members start losing their apartments and losing their houses."[8]

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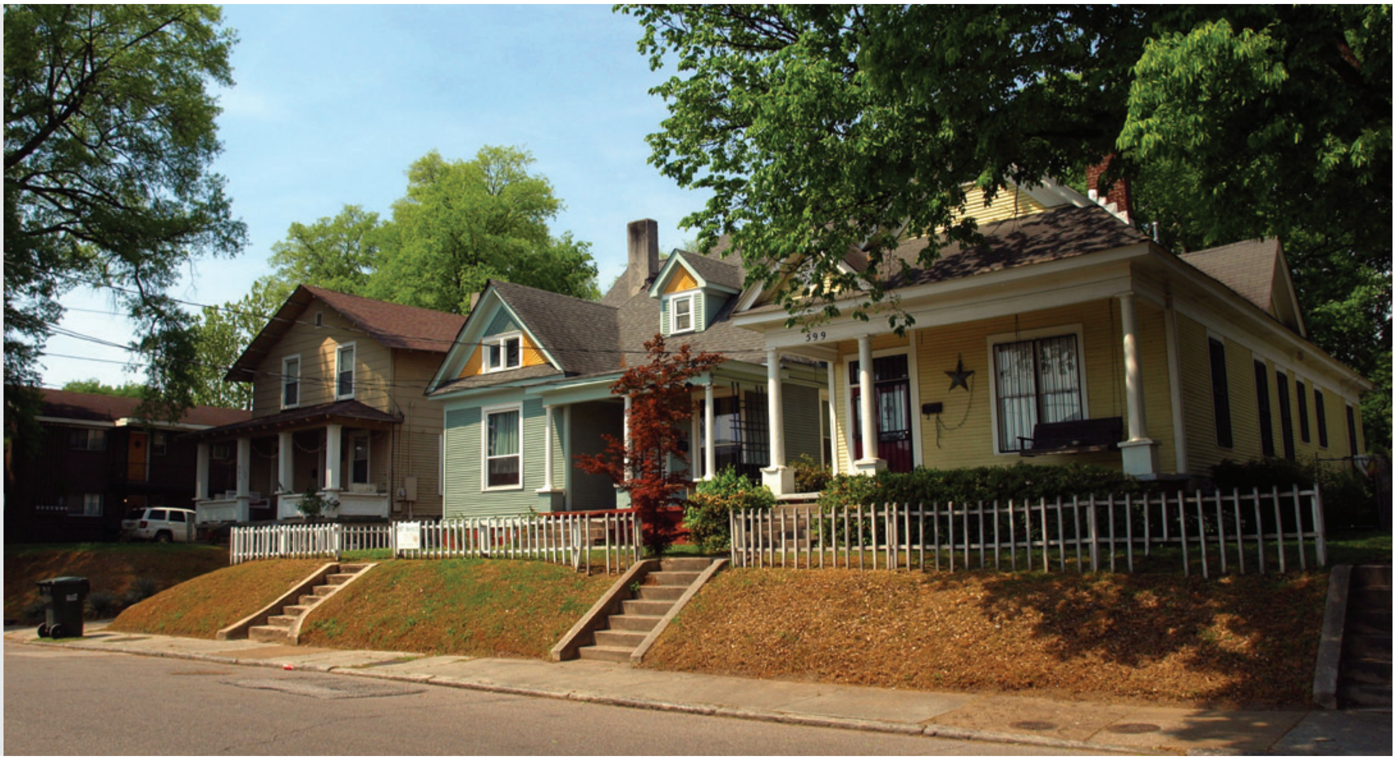
— Studio executive during the 2023 WGA strike

For example, Blackstone, a leading private asset manager and the largest landlord in the United States, purchased 5,600 affordable housing units in San Diego in 2021, and proceeded to raise rents by 43 to 65 percent in just two years.[9] Blackstone manages over 300,000 units in the US, and is acting to maximize rents, minimize tenant tenure, and fight rent and eviction controls.[10]

Private equity control of housing stock is growing fast,[11] especially after a pandemic spurt of buying when around a quarter of all home sales were to investor groups.[12] Over the past decade, private equity firms were parties to the vast majority of Freddie Mac's big apartment building deals, and over half of the biggest apartment owners in the country are backed by private equity.[13]

Private equity firms collectively own at least a million apartments and a quarter million mobile homes across the country, and have a long and well-documented record of raising rents, imposing new fees, and skimping on maintenance for their properties,[14] not to mention increasing evictions and suing their tenants.[15] *The Washington Post*



documented how the dominance of Cerberus Capital's FirstKey Homes in Memphis produced a spike in evictions and code violations.[16]

Homes in Memphis, TN

Private equity ownership of housing is unevenly distributed across the country, and hits working-class renters and households of color the hardest: according to researchers Eric Seymour and Taylor Shelton, "in the immediate aftermath of the foreclosure crisis, firms like Blackstone bought heavily in the Sunbelt. Atlanta has by far the largest number of homes owned by private equity and REIT landlords, followed by places like Phoenix, Houston, Las Vegas, and Tampa."[17]

The connection between private equity and the upward push on rents is not always because of direct market dominance. A private equity-owned software company called RealPage provides a rent-setting algorithm for landlords. Using their product, landlords get advice about how much rent they can charge.[18] RealPage is a defendant in a tenant class action lawsuit (consolidated from several dozen similar suits), two lawsuits filed by Attorneys General from Arizona and the District of Columbia, and a lawsuit filed in August 2024 by the Department of Justice joined by eight more Attorneys General, all accusing their rent algorithm of collusion masked as software.[19] Brian Schwalb, the Attorney General of the District of Columbia put it this way, "Effectively, RealPage is facilitating a housing cartel... Rather than making independent decisions on what the market here in D.C. calls for in terms of filling vacant units, landlords are compelled, under the terms of their agreement with RealPage, to charge what RealPage tells them." The private equity firm Thoma Bravo has owned RealPage since Thoma bought it for $10.2 billion in 2021.[20]

How pension fund investments are inadvertently undermining housing stability

Among the most troubling aspects of the housing crisis is the extent to which workers' own capital is being used to make it worse. Not only is affordable housing a labor issue, but tragically it is often the fruits of union labor that finance its destruction. Pension funds are key investors in the private equity industry that drive the hyper-financialization of housing and help push prices up. Public pensions make up almost a third of all investors to private equity funds and contribute an astonishing 67 percent of their capital, according to a study by a researcher at the University of North Carolina business school.[21]

Nineteen US public employee pension funds invested billions in Thoma Bravo's Fund XII and XIV, which now own RealPage. The funds include California Public Employee Retirement System (CalPERS), New York State Common Retirement Fund (NYSCRF), Minnesota State Board of Investment and the Washington State Investment Board.[22] They have thus inadvertently invested in a firm driving rising rents.

The North Carolina Retirement System invested more than $3.2 billion in private equity firm Landmark Partners, a major investor in Pretium Partners.[23] Pretium owns Progress Residential, the largest single family rental company in the US, which owns thousands of homes in North Carolina and has accumulated an extensive record of rent increases, surprise fees, and inadequate maintenance.[24]

Blackstone, the private equity firm that raised rents so high in San Diego, is funded not only by CalPERS,[25] but by many other public pension funds. Several of its real estate funds have investments from California State Teachers Retirement System (CalSTRS), Contra Costa County Employees Retirement Association, Los Angeles Department of Water and Power Employees Retirement System, San Diego County Employees' Retirement Association, and more.[26]

The private equity surge into ownership of manufactured home communities, often doubling rent increases and lot fees, has been amply funded by pension systems as well, with the Pennsylvania Public School Employees Retirement System and the Texas Employees Retirement System playing important roles.[27]

These funds are workers' deferred compensation: their money. Workers contribute part of their paycheck to these funds every month to ensure they have enough income to retire securely.[28]

Currently, there are more than 5,000 public sector retirement systems in the United States, including 300 state-administered plans. There are 14.9 million currently working public sector employees who contribute to these plans—between 10 to 15 percent of the total workforce—who are counting on these financial assets for their retirement

security, and 12 million currently retired plan members.[29] At the federal level, federal employees are members of the Thrift Savings Plan, the nation's largest defined contribution plan, with more than 6.2 million participants. These contributions add up: state and local public employee pension funds have $6.2 trillion[30] in assets, private, collectively bargained mutiemployer pensions have $720 billion,[31] and federal workers' Thrift Savings Plan has $857 billion assets under management.[32] About 14 percent of public pension assets are in private equity, $868 billion.[33]

Private asset managers like Blackrock, Blackstone, KKR, and Carlyle sell their services to pension funds with claims that they can earn the funds a high rate of return, often upwards of 15 percent.[34] These extravagant and questionable[35] claims attract pension capital, which is then directed towards portfolios sold as making fast financial returns rather than pursuing long-term investments that increase prosperity overall. Despite rhetoric that they "directly employ millions of workers, and deliver the strongest returns to support the retirements of millions of workers" as key providers of long-term capital,[36] these firms ensure they are the ones guaranteed money in their deals with pension funds — they make millions in fees no matter the outcome. In an interview, Oxford professor Ludovic Phalippou said "fees, death, and taxes are the only things that are certain when you are investing money" in private equity, and pointed out that the fees typically work out to seven percent of the investment's value, often even when there are overall losses.[37]

The irony is not merely that workers' own capital is being used to make their lives worse. It is compounded by the lost opportunities to use that same money to make them better. While organizers continue to fight the disastrous effects of the financialization of housing, it is also critical to reimagine how pension fund assets could be used to transform our housing system, rather than continue to enrich the private asset managers.

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Private asset managers do not have a long history in the US. It was the Taft-Hartley Act of 1947 and the Employee Retirement Income Security Act (ERISA) of 1974 that radically restricted labor's ability to influence investment decisions, and led to the outsourcing of asset management as standard practice.[38] But though labor has less control, there is no legal constraint that *requires* pension funds to give up control or to invest workers' retirement financial assets in extractive private equity firms. In fact, in many other countries — and at some points in the past in the United States — pension funds invest directly without these harmful middlemen, and they often choose constructive over extractive investments to further important public goals.

Fiduciary duty and worker well-being

Before turning to alternative options, it is worth considering the responsibilities that the people who run pension funds have to fund beneficiaries. The fund trustees on the board have been put in a position of trust for those members, and have a fiduciary duty to them. This is often interpreted too narrowly to mean that trustees have a duty to seek the maximum short-term return of each individual investment period. If all you care about is maximizing returns, at all costs, this inevitably leads

to favoring speculative and extractive investment models, like the worst of the private equity raiders.

Interpretations of fiduciary duty need to incorporate a better analysis of the long-term relevance of social and environmental factors in investment performance. How well will a fund perform financially in a world where inequality and economic precarity threaten stability and drag down economic growth? Due to their size and the range of financial and real world assets they hold, pension funds are sometimes called "universal owners," meaning that their investments are so large and varied that their performance reflects the health of the economy as a whole, and not just a set of idiosyncratic investments.[39] Therefore, factors that either lift up or drag down the economy as a whole are as important to the health of the fund as factors that affect an individual investment or a particular industry.

Also, because pension funds owe a duty to both older retirees and young members just entering the labor force, they must pay attention both to what could affect the health of the fund in the short term, *and* how it can grow sustainably over the long term. Indeed, a pension fund might best be described as less a financial institution than a mutual aid pact between all its members, who share risk to support one another.[40] For example, increasing investment returns for retirees by privatizing the jobs of active workers would be an obvious breach of that pact,[41] as would other similarly destructive investments.

The financial industry already acknowledges that there are lines beyond which a pension fund should not go in seeking investment opportunities. For example, basic conflict of interest rules forbid profitable investments if they are deemed to benefit a trustee, even if they are discovered and approved without the trustee's awareness or intervention. This kind of exclusion is so commonplace it requires no comment. Investments that might implicate a fund in conflict diamonds, chocolate slave labor, or clothing sweatshops might not contravene any law in a strict sense, but might still be a tough sell to any pension manager. The argument then, is not whether there should be lines drawn between permissible and forbidden, but where to draw them.

The fiduciary duty of pension fund trustees should encompass a fuller understanding of what members' interests are, considering the entirety of an individual member's circumstances and well-being. What good is a pension if you can't afford to live somewhere? What use are savings if they are used to put you out of a job? [42]

A pension is money owed to the retirees who earned it. Retirement with dignity is also an important social good. We cannot ask pension funds to put that at risk in order to fund other things, but it is also not the only worker interest on the table. The other interests — affordable housing, good jobs in their communities, clean air, drinkable water, a livable climate, and so on — should be part of any trustee's considerations, not least when they directly involve the welfare of plan members, their families, and communities.[43]

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Shifting Towards Housing Solutions

Given the possibilities and constraints of the current understanding of fiduciary duty, what can funds do to avoid contributing to the housing crisis, and instead to support sustainable and affordable housing? There are two categories of answers to this question. The pension plan's power as a large-scale investor can be used to raise standards in the existing investment landscape. And, pension plans can use their size to create better investment vehicles in their control, changing the landscape itself by directly channeling much-needed investment in positive ways.

Raising standards in existing investment channels

As investors, pension plans have power. While private equity is fairly important to the portfolios of many public pension plans, public pension plans are vitally important to the private equity industry. Public pensions are by far the most important of the institutional investors in private equity, providing far more funding to the industry than private plans, endowments, or foundations.[44] Public pension plans are in a position to exercise more control if they choose to do so.

Investment policies can help to hold private asset managers accountable and dissuade them from the most egregious behavior. CalPERS and NYSCRF have recently adopted labor standards, including a ban on interference with union organizing efforts, anti-discrimination standards, and safe work environments, among others. The California public teachers' fund CalSTRS is adopting Responsible Contracting Policies (RCP) to advance fair labor practices in real estate and infrastructure investments.[45] The American Federation of Teachers (AFT)[46] and the National Association of Building Trades Unions (NABTU), led by the Laborers Union of North America (LIUNA)[47] have both recently published suggested labor standards for private equity investments. These include insisting on the rights to association (freedom to organize), discouraging privatization and offshoring, and elevating the importance of workplace safety and health.

In addition to labor standards, pension plans should insist on adherence to housing-specific standards of behavior, too. Pension funds can take the lead in defining what good looks like in housing finance by adopting investment policies and strategies that work against predatory housing investments. Some examples of this include:

In May 2024, the New York City Employees' Retirement System (NYCERS) approved Responsible Property Management Standards (RPMS) developed by the Office of New York City Comptroller Brad Lander and For the Long Term in consultation with various stakeholders.[48] The standards outline principles for implementing consistent and fair tenant screening and selection practices, offering clear and fair leases; honoring tenants' rights to free speech and free association, optimizing tenant stability, and limiting rent increases.[49]

The Canadian group Shareholder Association for Research and Education (SHARE) has proposed a draft set of general principles for responsible investment in housing that tie investment policy to commitments to respect the Human Right to Affordable Housing.[50] These principles call for integrating the right to housing into investment strategies, including anti-discrimination and responsible contracting commitments, as well as an affirmative call for identifying suitable investments that produce quality affordable housing.[51]

CalSTRS recently adopted a real estate policy that includes a commitment that the fund "... will not invest in strategies that are intended to capitalize on the displacement of low-income households."[52]

These are important efforts to stop workers' money from being used against their interests, but there can be challenges to the impact of these tools. They must include mechanisms, so funds are in a position to determine whether investments meet the standards the policies seek. With respect to housing, it is particularly clear that a statement of principle is not the same as a monitoring regime, so these commitments need an explicit protocol in place for the plan trustees and managers to know if an investment is not actually affordable. Even if standards are violated and trustees come to know it, most private equity partnership contracts lack real mechanisms for accountability, which means language should be added to limited partner agreements and/or side letters if in the middle of a commitment. That said, these policies highlight harms that current investment practices can cause and and allow fund members and communities to demand changes.

Public pensions are by far the most important of the institutional investors in private equity [and] ... are in a position to exercise more control if they choose to do so.

Funding positive investment alternatives

What about broader options to shift away from extractive investment practices? In many ways, the business model of existing private equity firms is diametrically opposed to the financial interests of workers and their families. Layering on discrete standards will not address a crisis of this magnitude. And it does not direct resources to solving problems and increasing the broader economic wellbeing of workers and their communities. To meet these goals, altogether different investment approaches will also need consideration.

Current practice is generally for investment returns to account for 60 to 65 percent of public pension fund revenue on average.[53] Since public plans are often underfunded by the traditional measures, it can be very difficult for funds to ignore private equity promises of very high returns. The pressures created by underfunding also frequently hamper discussion of possible alternatives. This is why it is important to note the large body of data that calls into question whether those promises are accurate. Accounting and timing issues, constraints on liquidity, and the opacity of the valuations provided to the limited partners (i.e. pension funds) mean that industry promises may very frequently not reflect reality. In fact, since the 1980s, the returns of the average private equity fund have been roughly similar to comparable public equities.[54] Since the 2000s, they have been worse. Once the cost of the liquidity risk inherent in these investments is factored in, the real return on these investments becomes highly questionable. An analysis of returns using data from the Public Plan Database found that from 2001-2022, "alternative" investments (which include private equity, but also hedge funds and private credit) have not done better than public equity investments, though they may have reduced volatility.[55] The largest Oregon fund admitted recently that its private equity allocation has been a drag on overall fund performance.[56]

Since the 1980s, the returns of the average private equity fund have been roughly similar to comparable public equities. Since the 2000s, they have been worse.

Given all this, if a pension fund manager or trustee wants to avoid the harms of private equity and make constructive investments in their community, what should they invest in instead?

Here we suggest answers to that question in the domain of affordable housing: some from our nation's own past, some from our present that deserve more attention, some from other countries, and some new answers given the tools at hand. They all have working models, though some have not been applied in the context of pension funds. Despite that, many of them may be perceived as unusual by the fund manager to whom they are suggested. But none of these ideas are radical.

Solutions from our own past

Fiscal mutualism

Until the 1960s, it was considered unremarkable for pension funds to invest in state and local government debt. This "fiscal mutualism" benefited the fund members, whose capital could be used to finance local schools and other municipal capital projects, and it benefited the pension funds, who appreciated the security of the income from those investments. Growing pension funds financed growing housing supply, but this consensus unraveled in the early 1960s when pension funds began to seek higher yields in corporate bonds.[57] Pension funds have overall been able to achieve higher yields from this shift in investment strategy, while school districts and other government entities have had to deal with higher rates and underwriting fees as a result of having to borrow from the open market.

Currently, pension funds seem generally unwilling to make significant investments in municipal bonds, largely because non-taxable bonds pay substantially lower interest rates and the tax advantage is meaningless to pension funds that do not pay taxes.

However, not all municipal debt is non-taxable. Building housing that will be privately owned, by the occupant or a non-profit, for example, would typically not qualify as a tax-exempt purpose. Bonds like that can be attractive as a low-risk investment, and several large cities have recently issued municipal bonds for housing, worth hundreds of millions of dollars, to increase the supply of affordable housing. This is a scale large enough to attract large institutional investors like pension funds, with yields they find attractive, too.[58]

Some examples of issuances of either taxable or a mix of taxable and tax-exempt bonds include:

King County (Seattle area), WA

As of September 2024, the Metropolitan King County Council's budget committee is considering legislation to direct the Count Executive to come up with a plan for how to issue $1 billion in taxable municipal bonds to finance affordable housing.[59]

New York City, NY

In October 2022, The City of New York issued $400 million of taxable bonds. The affordable housing projects supported include a total of nearly 3,300 units across 16 projects in Brooklyn, the Bronx, Manhattan, and Queens, with 72 percent of the units serving households earning at or below 60 percent of Area Median Income (AMI) and over 27 percent of the units serving those who were formerly homeless.[60]

Philadelphia, PA

In 2021, Philadelphia sold $100 million in social bonds ($89 million of which were taxable) to support the Neighborhood Preservation Initiative (NPI), a city program created to "invest in programs that expand and protect affordable housing, keep Philadelphia owners and renters in their homes, improve housing quality, and promote homeownership."[61]

San Francisco, CA

In 2019, voters approved the issuance of $600 million in bonds to finance the construction and development of affordable housing with an emphasis on vulnerable populations such as working families, veterans, seniors, and people with disabilities. The city has made two issuances of taxable bonds based on this authority since: $254 million in 2021 and $170 million in 2023.[62]

Another way to attract pension fund capital to the municipal bond market is to adjust the bond yield, via programs such as the Build America Bonds (BABS), a federal initiative introduced to boost investment in 2009 in the wake of the financial crisis.[63] By subsidizing issuers with what was a bit more than a 25 percent bump in the interest rate, the BABS program opened the door to nonprofit institutional investment in municipal bonds. The program ended in 2010, though many of the bonds are still outstanding, with the federal government still subsidizing the interest on them. A similar program of bond subsidy at the state or federal level could be a way to unlock a tremendous amount of investment in affordable housing at the municipal level through non-profit and pension fund purchases of subsidized bonds.

Direct investments

It is also possible to make direct investments in housing. NYCRS, the collection of five New York City pension systems[64] has over $3 billion directly invested in affordable housing in NYC and surrounding counties through different vehicles, mostly loans but some equity. NYCRS has a few avenues for its direct investments:

The Access Capital Strategies (ACS) program buys mortgage-backed securities for affordable homes. It screens the mortgages for predatory practices, with the goal of providing fairly priced mortgages for low- and middle-income home purchasers, including minority and women purchasers. The program currently has $450 million invested in over 46,000 single and multi-family homes.[65]

Public Private Apartment Rehabilitation (PPAR) is a similar program for larger multi-family housing. It provides takeout mortgage financing for affordable apartment housing, currently with about $1.6 billion invested and more in future commitments. PPAR has preserved and built over 45,000 affordable apartments since inception.[66]

NYCRS also invests heavily in the Community Preservation Corporation (CPC), essentially a non-profit bank, founded by a consortium of New York banks in the 1970s to direct investment into disadvantaged neighborhoods in the city.[67] Through CPC, NYCRS is currently investing $60 million in a partnership to preserve 35,000 affordable apartments, mainly in Manhattan and the Bronx. Eighty percent of these units are rent regulated, representing about three percent of the city's rent-regulated housing stock — housing that was part of the failed Signature Bank portfolio.[68]

These types of investments make sense for the kinds of diversified portfolios characteristic of pension funds. There is ample evidence that investments in affordable housing can play the same role as bond investments, providing long-term security as a desirable tradeoff for their lower yield.[69] According to the Comptroller's office, NYCRS investments in economically targeted investments (ETIs), including the direct housing investments, and other more indirect commitments, are almost $5 billion,[70] a little less than two percent of the total system assets of $276 billion.[71] The system's target for ETIs is two percent, and in addition to fully meeting the target, there is no reason for NYCRS not to raise the target further.

Cooperative investments

While lower returns on affordable housing investment can present a challenge for pension funds to invest in, there are other ways to create opportunities. In San Francisco, the St. Francis Square Co-op was developed with financing by the International Longshoremen's and Warehousemen's Union (ILWU) pension fund. Lou Goldblatt, the ILWU Secretary-Treasurer in the 1940s and 1950s, realized how much

housing development costs went into interim finance, advertising, and profit. He understood that a developer that could forego or avoid those expenses could build affordably while still providing a return on investment to the pension fund. The fund trustees formed a non-profit developer and the result was 299 garden apartments in San Francisco.[72]

Photo: Matt Green

A few of the dozens of buildings that constitute Co-op City, the massive agglomeration of high-rises and town houses in the northeast Bronx.

Electchester, a cooperative apartment development in Flushing, NY, was built in a similar way by the International Brotherhood of Electrical Workers (IBEW), which again established a non-profit developer to make it happen.[73] Both these projects were made possible by a pension fund, but also by the creation of a construction process and a co-op owner that did not need to extract profit from the project.

In New York, Mitchell-Lama projects are a related approach for building rental properties and establishing co-ops. They relied on significant public subsidies, both for the land and credit, as in the St. Francis Square and Electchester projects. Several of those developers were co-ops, though many for-profit developers also accepted the subsidies in exchange for rental price controls.[74] Such a strategy can be an efficient way to leverage capital. By subsidizing the interest on a project, rather than subsidizing the whole project, a city or state could make available a tremendous amount of capital at a relatively low cost. Co-op City, a housing cooperative in the Bronx that is the largest single residential development in the US, with over 15,000 residential units in 35 high-

rise buildings and seven townhouse clusters of garden and duplex apartments, and a population of approximately 50,000, is a Mitchell-Lama project.[75] A subsidized interest approach along these lines could also work to increase the housing stock owned by community land trusts. Penn South, a development in Manhattan's Chelsea neighborhood spearheaded by the International Ladies Garment Worker Union (ILGWU), is another example of a successful limited-equity co-op.[76] Finished in 1962, its 10 22-story buildings hold 2,820 units with long-term controls on their resale.

Solutions being tried in the US today

There are also a number of existing investment products designed to offer conventional returns and produce affordable housing, often by integrating public and philanthropic subsidies into their investment strategy. Funds start by adopting economically-targeted investment (ETI) policies that include commitments to affordable and workforce housing. ETIs are investments that generate collateral benefits apart from the investment return to the employee benefit plan investor.[77] From the pension plan's perspective, societal benefits generated through ETIs are generally of secondary importance to financial return objectives. ETIs are often focused on the state or region in which a pension fund is based and specify the type of collateral benefit the investment is seeking. Many vehicles are focused on financing job creation or affordable housing. Below are a few existing ETI models that could be expanded in scale and used by many more funds.

AFL-CIO Housing Investment Trust

The AFL-CIO Housing Investment Trust (HIT), established in 1984, has a long history of debt financing for affordable and workforce housing projects built by union labor – the guiding principle of HIT remains risk-adjusted rates of return, but it works in real estate markets and with institutions and subsidies that allow for increased affordability, as compared to its peers, to be included in its goals.

Now in its 40th year, HIT is a well-established option for pension fund investments, with about $6.5 billion in assets. About a quarter of its funding is from public pension funds, and most of the rest is from private multi-employer (Taft-Hartley) funds. Only about five percent of its funding is from other non-pension investors. In 2023, the fund contributed $357 million in financing to 15 different projects and almost 2,900 housing units, 45 percent affordable. Over its history, the trust reports making over $10 billion in investments to almost 600 different projects in the areas of interest to its investors.

HIT funds itself by issuing taxable bonds, at competitive bond yields with high security. These are well suited to the fixed-income portion of any pension fund's portfolio. They have a relatively low expense ratio, and that combination is partly why HIT bonds are approximately half of the housing ETI portfolio of NYCRS, the New York City pension funds, making up one percent of the fund's total assets.[78] HIT asset levels are the primary limitations on their activity. Estimates from their staff imply they have the capacity to use two or three times the assets currently available, so there is ample room for expansion of both their assets and their mission.[79]

Wisconsin Private Debt Program

The State of Wisconsin Investment Board (SWIB) makes direct loans as investments from the Wisconsin Retirement System (WRS). In Wisconsin, these are typically loans to companies for investment in equipment or expansion of facilities. The loans are at market rates, but the program touts itself as patient capital. Formally established in 1983, private debt has been part of the WRS investment portfolio since the 1960s, when the investment director began to experiment with it.[80] The program has dedicated staff, and functions essentially as a low overhead in-house private investment firm, finding opportunities and shopping them to SWIB. Since its establishment, the Private Debt Program has made over $2 billion in loans to more than 200 companies.

Such a structure could easily be emulated in other states, and while the Wisconsin program is mainly aimed at corporate borrowing at market rates, another program could be directed to housing, perhaps accepting a lower rate in exchange for equity, or accepting subsidies for the interest payments.

California Initiative and other in-house private investment vehicles

In 2001, California Treasurer Phil Angelides created the "California Initiative," essentially an in-house investment firm to invest in California companies, with a focus on underserved communities. Unlike typical private equity buyout firms, it eschews debt and makes equity investments for the long term, with a focus on the health of the companies rather than the quarterly profits of the investors. As of 2017, the Initiative had over a billion dollars invested. On average, each year, it turns over around $250 million, often leveraging those sums against dollars raised from other investors. Since inception, the Initiative has supported over 500 different companies, and over 200,000 jobs.[81] The relation with the investment targets is not one of long-term dependency. As of 2017, almost half of the invested companies had successfully exited the program.[82]

The Initiative thrives by finding investment opportunities in underserved communities, not typically where for-profit private equity firms look, and it does not use the high-leverage, short-term optimized investment strategies of the private buyout funds. Despite that, by focusing on growth potential and investing for the long term, its results have been excellent. Its success has resulted in the program being emulated in several states. Similar programs exist today in New York,[83] Colorado,[84] Michigan,[85] Florida,[86] and a few others, though the implementation details and investment focus vary considerably. Colorado, for example, is styled as a Venture Capital Fund, while the Florida fund is essentially just a financial commitment to the Small Business Administration (SBA) loan program. Where for-profit buyout firms are often associated with extracting wealth and job losses to "streamline" the companies they buy,[87] by focusing on growth and sustainability, these in-state investment funds have created tens of thousands of jobs since the late 1990s.[88]

Such entities need not confine themselves to factories and software companies. Equity investments into housing, like NYCRS has done with CPC and its PPAR, could be sensible for such funds, valuable for security if not yield. Beyond that, old-fashioned savings banks were examples of businesses that could make a modest but market rate of return for their investors with a business largely made up of issuing low-cost mortgages. A cash manager like the one outlined below, in Cash Management for the Common Good, could be capitalized with pension funds to serve some of the investment needs of local governments and government agencies and use the pooled funds to supply low-cost housing debt.

Solutions from other countries

The challenges of finding constructive ways to invest pension funds to provide secure retirement income are not limited to the US. Funds in other countries have encountered the same issues, and developed some similar solutions, though some of them have gone a bit further in both scale and scope than domestic counterparts.

Australia Industry Funds Management

In Australia, pension funds developed the Industry Funds Management (IFM), founded in 1990 with 27 Australian superannuation (pension) funds as its shareholders. IFM was set up shortly after the super funds themselves by labor leaders, with the goal of investing collaboratively in infrastructure and other services, with stronger labor standards and lower fees.[89] It is a cooperatively owned asset manager, with an infrastructure division, and a more recently added division to make long-term private investments, as well as another operating in the private credit market. Again, success was found by establishing a low-cost, essentially non-profit, agency instead of contracting out to for-profit investment firms. Since its founding, IFM has grown to $240 billion invested on behalf of 665 institutional investors.

A different Australian pension fund had a similar solution. Construction and Building Unions Superannuation (Cbus) is the pension fund for the construction and infrastructure industry in Australia. Similar to IFM, it established the Cbus Property Trust as a subsidiary, to develop residential, retail, and commercial properties, with strong labor standards and lower fees than is normal.[90] Again, feeling that much of the expense of construction was because of the various players' need for profit, it established what is essentially an in-house developer to reduce the costs of making its desired investments in housing, just as was done with Electchester and St. Francis Square, above.

Greater Manchester Pension Fund

The Greater Manchester Pension Fund (GMPF), among the largest pension funds in the UK, embraces its stance as an activist investor. It publishes a quarterly "Engagement Report" with news of its activities and the activities of the companies in which it invests.[91] Currently, its housing investment is two-thirds of its "impact investing" portfolio. It has an explicit policy to reserve five percent of its portfolio for local investments, including ownership of affordable housing.[92]

In 2022, GMPF invested £20 million in the National Homelessness Property Fund (NHPF2), run by social impact real estate manager Resonance. With that fund, part of a total fund of £65 million, the NHPF purchases homes in the Greater Manchester area for people facing a housing crisis.[93] It buys properties and renovates them before leasing them to the housing sector and homelessness charities. Since 2022, GMPF has committed even more to housing investments: the recent placement of £120 million has brought its total investment in housing to over £1 billion.[94]

Labor-sponsored investment funds: Solidarity Funds in Quebec

The largest development capital network in the province, the Fonds de Solidarité FTQ, was created on the initiative of the Fédération des Travailleur Quebec (FTQ), Quebec's largest central labor body. Since its founding in 1983, the Fund has engaged in economic development and job creation, investing mainly in small and medium-size enterprises. The Fund is a Labor-Sponsored Investment Fund, a type of mutual fund established by law in Canada, which makes it a private fund akin to a venture capital fund. It invests directly in private corporations, becoming one of the owners. As of November 30, 2022, the Funds held C$17.8 billion in net assets and had more than 753,000 owner-shareholders.[95]

FTQ has a 20-year track record of investments in housing, currently holding over $100 million in housing investments, mainly through local non-profit agencies. The money is deployed both as patient capital, to build and maintain housing over the long term, and rapid-deployment capital, for property acquisition and bridge finance.[96] FTQ also plays a leading role coordinating collective investments in Quebec housing, leveraging relatively small investments into a larger impact, such as a recent investment of only C$350,000 toward a C$10.5 million building of affordable and low-energy-use apartments.[97] Though the investment seems proportionally small, FTQ led the partnership to build it and with the Government of Quebec plans to organize similar syndicates to build 2,250 social or affordable housing units by 2027.

PGGM in the Netherlands

Dutch asset manager PGGM is a not-for-profit cooperative pension fund service provider that manages pension assets worth approximately $260 billion dollars for 4.3 million participants. It is a cooperative entity managed by its members, focused on a wide variety of pension funds across the Netherlands.[98] It began investing in private equity in 1983 but in 2009 began to establish in-house private funds for investments by their client pension funds. PGGM describes its work as enabling its client pension funds to provide good pensions and acting "as an investor of their savings in investments that make the world a better place and as a committed part that contributes to a vital health care and social sector." PGGM has found the approach highly successful and now has about 10 percent of its portfolio invested in their own funds.[99]

With so much capital to deploy, PGGM makes investments all over the world, housing among them. It publishes ESG guidelines for its private real estate investments that stress principles of sustainability and affordability.[100] Invesis is a large affordable housing developer in Australia, and is wholly owned by PGGM.[101] Acquired in 2023, it recently made a A$60 million investment to build 1,370 affordable homes in Melbourne. PGGM is behind many other social and affordable housing projects, recently including social and elder care housing in the Netherlands,[102] affordable rental housing in the UK,[103] and apartments in Sydney.[104]

New solutions

Asset managers for the common good

Currently, pension funds choose their asset managers, but the industry is so concentrated that large pension funds only consider a few options, mainly the behemoth financial institutions which, like Blackstone, have demonstrated that their first priority is to enrich themselves and whose investment behavior has no regard for its devastating negative impacts on workers, families, communities, and our environment. Given this reality, another option for pension funds interested in creating more affordable housing is to establish their own asset managers. Several large U.S. state funds have established in-house asset managers (see California Initiative and other in-house private investment vehicles above), but not every fund may be large enough to do so on their own. Smaller funds could establish co-op asset managers to pool their resources and work together to make their investments more efficient and better for the world.

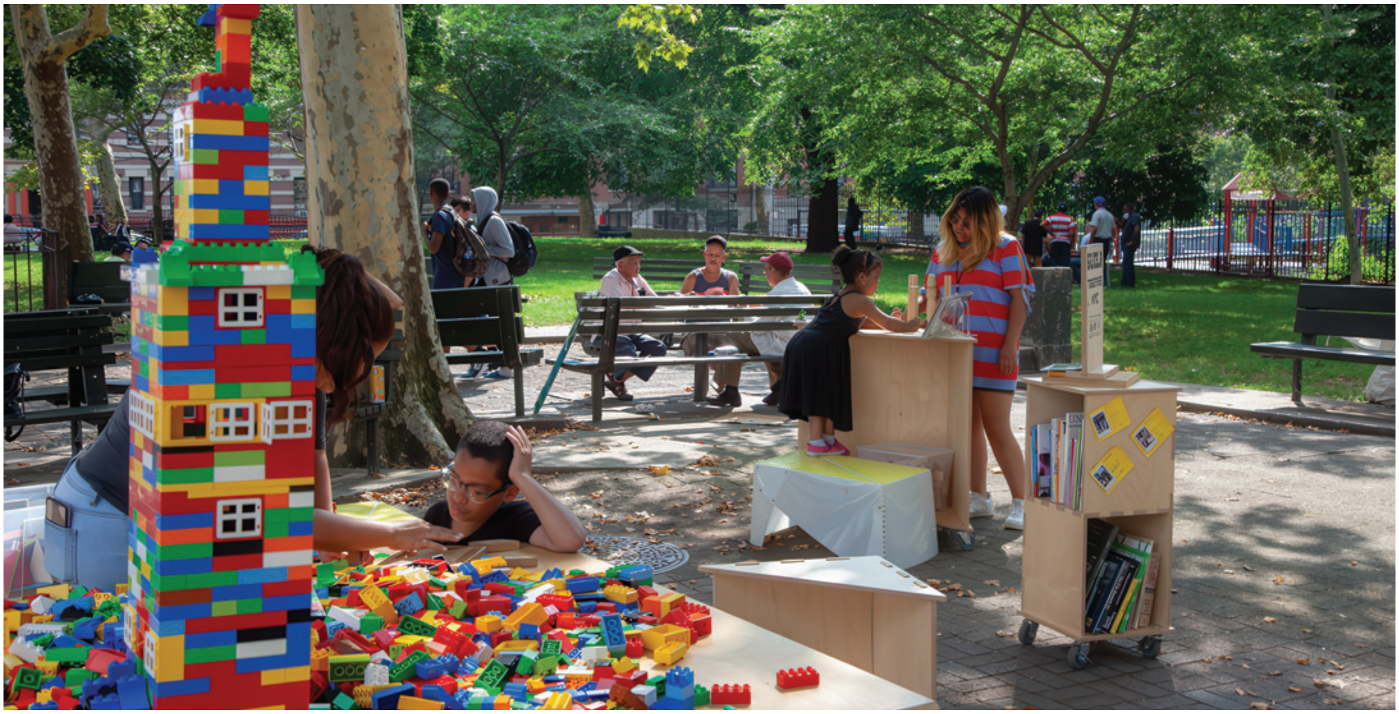
By establishing a co-op asset manager with a non-profit status that is responsible solely to the pension funds, the asset manager will have as its sole responsibility carrying out the shared investment vision as the pension funds define it, *rather than having its own profit maximization and shareholder value maximization as its end goal*, as the leading asset managers do today. This type of an asset manager would bring important expertise in available investment opportunities in affordable housing to pension funds, eliminating the need for all 30,000+ different public and private pension funds to hold expertise internally about affordable housing and other critical social investments.

Another advantage of an independent co-op is that while the in-house asset management initiatives of California, New York, and others prove that the concept is viable, these kinds of informal programs are at serious risk of lasting only as long as the treasurers or staff whose idea they were. By institutionalizing the idea as a cooperatively-owned institution, the public policy goals are preserved for the future and become much more likely to play a sustainable role in the pension fund's success over the long term.

A version of this requiring government action has been suggested by Lenore Palladino, an author of this report. She has called for establishing a public asset manager, a government-owned financial institution that would serve as the asset manager for pension funds, and outlined the ways in which asset management could be organized differently than the highly extractive buyout funds of the mainstream private equity industry.[105] She writes,

> Establishing a public asset manager will benefit current and future public sector retirees because the public asset manager can reflect their true interests in a stable and sustainable economy and society in its corporate governance and portfolio allocation. A public asset manager can serve as a public option for private funds seeking an asset manager, increasing market competition for asset manager services.

The [co-op] asset manager will have as its sole responsibility carrying out the shared investment vision as the pension funds define it, rather than having its own profit maximization and shareholder value maximization as its end goal.



West Harlem, NY

An asset manager organized by a co-operative of pension funds could be organized in a similarly productive manner, though obviously the scale might not be as ambitious.

Another reason to consider an asset manager has to do with the potential upside of an investment. Many ETIs, including several suggestions above, are formulated as loan programs, providing credit on behalf of important public policy goals. Obviously, some such loans will not succeed, but others may succeed well. However, the terms of a loan create a limit on the upside potential; a successful loan is merely repaid on time, and the unsuccessful ones only reduce the average return of the program. An asset manager could use its ownership to capture the potential upside of a project or group of projects. Ownership allows the government to do more than just socialize the losses, but also participate in the gains, potentially making a collection of investments promising enough to make up a competitive pension fund portfolio. The classic example is from the Obama administration, where a failed loan to Solyndra, a solar energy startup which did not succeed, received attention and negative press, while the same program also funded Tesla, which succeeded in dramatic fashion. The terms of the loan meant the government absorbed Solyndra's loss, but enjoyed no part of Tesla's gain.[106] The returns of the fund that loaned to these two projects was limited to the interest rate they charged. Had the program been run by an asset manager that owned equity in Solyndra and Tesla in exchange for the invested funds, the gains would have more than made up for the losses and the fund could have continued to invest in many more companies than it did.

Cash management for the common good

Across the US, there are low-cost local lenders doing good work in their communities. Generally relatively small organizations, they do affordable housing investment and small-business lending, providing credit in neighborhoods that need them. Many of them are officially designated as Community Development Financial Institutions (CDFIs) by the US Treasury. In order to lend at lower rates, these lenders rely on low-cost capital, usually either from banks trying to meet their Community Reinvestment Act obligations, or from philanthropic sources, either grants or program-related investments. These sources are inherently limited and are a significant constraint on these local credit activities.

A fund capitalized with financing from one or more pension funds could build on and strengthen the local work done by CDFIs. It could be structured to give pension funds the capital appreciation rates they need while producing low-cost capital for housing investment and local lenders. Capitalized by the pension funds, the fund would issue medium-term notes to government investment managers and lend from those funds to local CDFIs. It would act as an aggregator of the CDFI credit demand, building it up to the transaction sizes appropriate for pensions and governments, while putting aside loss reserves for security.

An asset manager could use its ownership to capture the potential upside of a project or group of projects.

In structure, this would resemble an old-time 5-cent savings bank, a traditional system for turning low-cost credit into market-rate investment returns. And though the history of such banks includes a number of cautionary tales, there are well over two hundred such banks in the US that have persisted for more than a century by maintaining adequate capital ratios and cautious lending practices.[107] The credit provided by the low-cost local CDFIs would be delivered where it needs to be for maximum economic impact. The record exists to show how to do it safely, and making a fund like this is a good option for pension funds to pursue economically-targeted investments that can still provide competitive rates of return.

The Bank of North Dakota (BND), a public bank, operates on a similar principle. BND provides short-term investments to help North Dakota public agencies manage their funds. The funds on deposit at BND from all North Dakota state agencies and trust funds are what fuel the credit the bank makes available to its customers. This is precisely the same service that the big money-center banks provide to public agencies in the rest of the country. The example of North Dakota shows there is no reason a public or cooperative institution, with the public good baked into its bylaws and practices, cannot follow suit with less risk and more public benefit.

Conclusion

Pension funds are not without power in the financial markets if they choose to use it. As we have seen, they are by far the leading funders of the private equity industry. They can impose standards to curb private equity actions that reduce affordable housing and harm the long term economic interests of pension beneficiaries, and they can deploy their assets to affirmatively produce more affordable housing.

This report has outlined a number of ways they can do so, both drawing on specific models pension funds in the US and in other countries have already used, and building on these ideas to create new models.

Both governments and labor have at various times created new financial institutions to close gaps and meet unmet needs. In the United States, the labor movement created the Union Labor Life Insurance Company, a labor-owned pooled insurance fund, since workers were unable to obtain insurance in high-risk industries and because they were workers. Unions also created the Amalgamated Bank, countless credit unions, and, of course, the many union pension funds. The government of North Dakota created a bank of its own a century ago, to provide credit to farmers.[108] The government of Rhode Island created an insurance company in 1986 to address the workers' compensation market for municipalities in the state.[109] Many municipalities across the country came together to create Build America Mutual (BAM), a mutually-owned AA-rated bond insurance company that can raise a bond's rating, thus lowering the cost of its interest payments.[110] BAM was founded by a collection of municipal bond issuers, organized by the National League of Cities.

What was important to the originators of all these institutions was that a need existed. They had the means and will to address it and did so, centering the impact on workers, families, and communities. The lesson is clear: when a void is detected in the landscape of financial institutions, sometimes the sensible, logical and fiscally responsible thing to do is to fill it.

The record shows pension funds can act, as the California Initiative, Wisconsin's private debt group, and PGGM's in-house investment division, among many others shared here, demonstrate. Other funds, some of which have financial assets larger than many countries, can and should step up.

The ideas presented in this paper are not radical or even new. Most of them are in place somewhere in the US, some in other countries. Some are old ideas, perhaps neglected due to a lack of personal financial incentives. Where they innovate, they do so gently, copying ideas and approaches that have been highly successful in other contexts. It is clear that workers, whose trillions in capital fund the nation's pension systems, are not well served by the investment alternatives available today. It is equally clear that practical, plausible solutions are available. In both a legal and historical sense, addressing this market failure is well within the scope of action for pension system managers and trustees. They should take action to do so.

The ideas presented in this paper are not radical or even new. Most of them are in place somewhere in the US, some in other countries.

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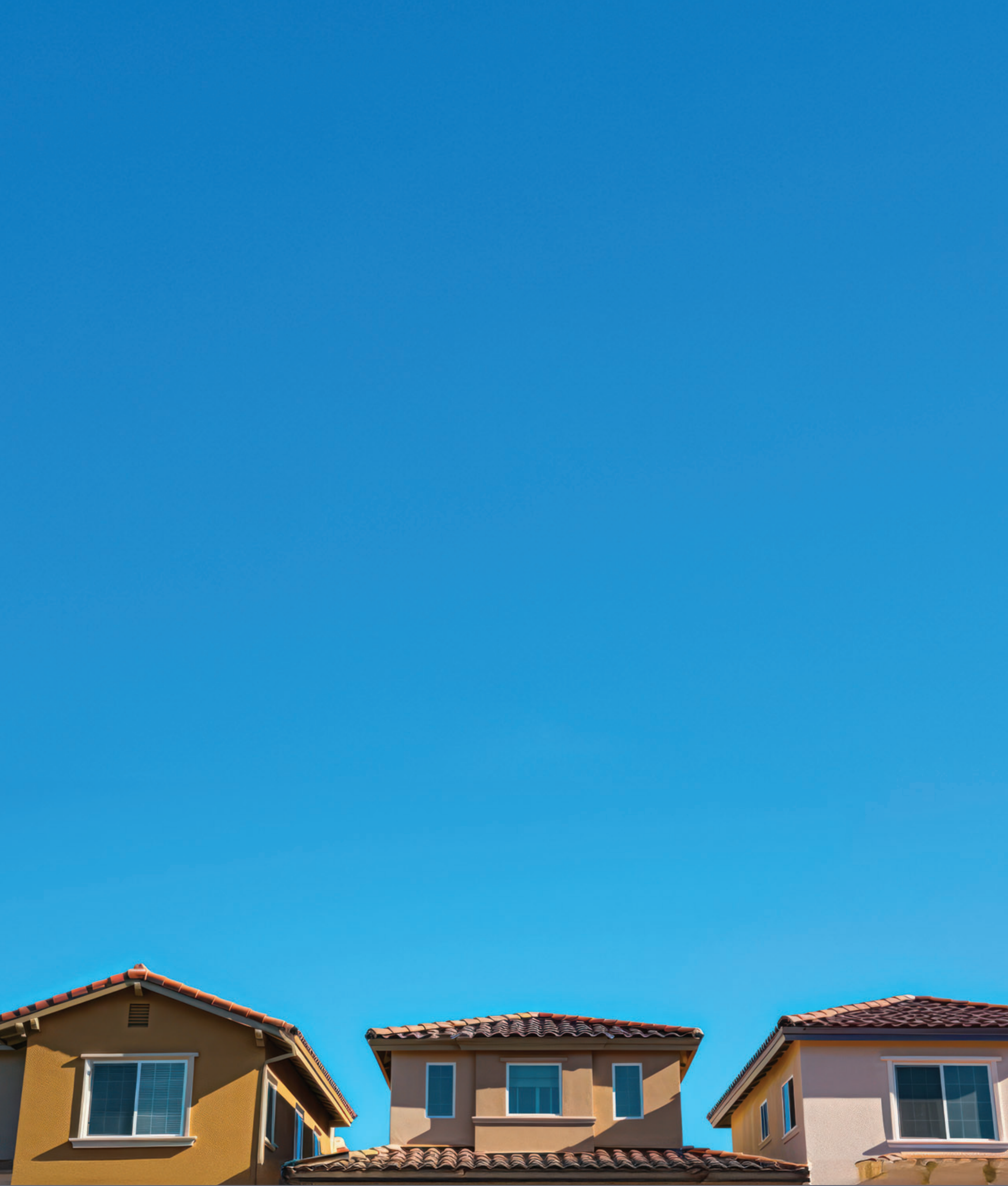

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