



investing **in** housing

- | **Public Service Alliance of Canada**
- | **Alterna Savings Credit Union**
- | **Ottawa Community Loan Fund**

- | **Socially-Responsible Investing by Institutional Investors**

The Public Service Alliance of Canada Staff and Officers Pension Fund and Alterna Savings Credit Union have partnered to create an innovative vehicle to invest in affordable housing. The pension fund investment provides a market rate of return as well as a tangible social benefit. This case demonstrates that financial institutions can invest in communities to generate a social return while meeting their fiduciary responsibilities.

Financing Affordable Housing

A lack of affordable housing confounds many communities across Canada, contributing to poverty and marginalization among low-income groups. Affordable housing has been recognized as a pressing social issue that has significant implications for the health and well-being of Canadians and the communities in which they live.¹ In major cities, the affordable housing problem continues to be compounded by surging population inflows and rising rental costs, with low-income households bearing the brunt of these trends.

For the mid-1970's until the mid-1990's there were federal and provincial programs in place to fund affordable housing in Ontario, but the termination of these programs in the mid-90's has created a critical shortage of affordable housing. Limited government support has thus focused attention on non-traditional sources of financing that can be leveraged to secure equity and to finance the operating costs for affordable housing projects. Among these non-traditional sources of finance are a segment of investors who seek both financial returns and the creation of social good – also known as “socially responsible investing.”

The Alterna Community Alliance Housing Fund was created through a \$2 million investment by the pension fund of the staff and officers of the Public Service Alliance of Canada (PSAC), Canada's largest federal public service workers' union. The first arrangement its kind, the Fund was formed through an innovative partnership with Alterna Savings Credit Union, a credit union committed to community investing, and the Ottawa Community Loan Fund (OCLF), a non-profit community development financial institution. In order to establish the Fund, various organizations played a critical role in facilitating this unique arrangement.

Investing in Partnerships

The groundwork was laid by a feasibility study commissioned by the Centretown Citizens Ottawa Corporation, Ottawa's largest private non-profit housing corporation with over 1300 affordable housing units under management. The study recognized that private investment could be leveraged to tackle affordable housing issues, and identified the need for a community-based affordable housing investment vehicle.² The Carleton Centre for Community Innovation, a knowledge incubator for social finance based at

¹ TD Economics (2003)
“Affordable Housing in Canada:
In Search of a New Paradigm”,
[http://www.td.com/economics/
special/house03.pdf](http://www.td.com/economics/special/house03.pdf)

² Steve Pomeroy (2005)
“Creating the Ottawa Affordable
Housing Investment Fund:
A Feasibility Assessment”,
prepared for the Centretown
Citizens Ottawa Corporation

Carleton University, acted as an intermediary by illustrating potential financing and investment vehicles drawing on international experience.

The PSAC pension fund had already committed to socially-responsible investing for affordable housing, but wrestled with how to implement direct targeted investing in a manner that met its fiduciary responsibilities. It would have been too expensive and time consuming to set up their own financial arrangements, and they lacked the expertise to structure such a deal on their own. As a national union, it would have required the pension fund to set up a special purpose entity (SPE) in potentially over a dozen different jurisdictions to be able to make such an investment.

Building on a 100-year relationship with the civil service, Alterna Savings proposed to act as the financial intermediary by providing deposit products and rates that were acceptable to the pension fund. In partnership with the Ottawa Community Loan Fund (OCLF), they also provide the lending approvals for the housing initiatives (where appropriate) as well as the operational and administrative support. Alterna's partnership with the OCLF builds on existing initiatives, and made the OCLF a natural choice in terms of a community financial institution that provides an "ear to the ground" for the actual investments in affordable housing projects in Ottawa.

The unique nature of this partnership among diverse groups – a pension fund, private financial institution, community development financial institution, housing experts, and an academic research centre – generated synergy that allowed each organization to contribute their specialized expertise and perspectives. Constant inquiry on substantive and technical issues was encouraged, and shared values played an important role in moving discussions forward. The result was the creation of a Fund that met the objectives of the pension fund

and the financial intermediaries that would administer and operate the Fund.

Creating the Investment Vehicle

The Fund has resulted in the creation of a new institutional structure grounded in a multi-partner collaborative mechanism. The Fund was created as an "investment-grade investment" instrument – a financial intermediary vehicle that allowed the pension fund to provide long-term patient capital at a 5-year GIC rate of return. The Fund will provide low-cost financing for second-mortgage financing, and where necessary, primary-mortgage financing. Other areas that will be considered in the future include: bridge financing for affordable ownership developments (i.e. to secure construction financing until pre-sales are completed), interim financing to cover the costs of construction overruns, and pre-development financing to assist community groups in developing housing proposals.

The Fund is not only concerned about providing finance, but doing so in a responsible manner. PSAC has stipulated that the housing projects funded must meet three core ethical objectives: housing must be affordable to those most in need, housing must be affordable in long-term, and housing should be constructed by unionized workers. In addition, other preferred criteria include energy efficient and sustainable development; wheelchair accessibility; mixed income housing; resident involvement in the management of the project; and maintenance by unionized workers.

Dealing With Risk

An important question that the PSAC pension fund faced was how it would meet its fiduciary responsibilities while investing in non-traditional investments. What would this financial vehicle look like, and how would it ensure that the pension fund would still be able to generate a financial return while investing in social good? The Carleton Centre for Community

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Innovation convened a “meeting of the minds” to discuss the perspectives and concerns of each organization. This meeting provided the catalyst by which Alterna and the OCLF, together with the trustees of the pension fund, were able to create the appropriate investment vehicle.

There were risks with undertaking this partnership which required important commitments from all engaged parties. Even though the Fund made sense for Alterna because of its commitment to community economic development, it still required the agreement of senior management to provide PSAC with a market rate of return, and to absorb all the risk associated with the affordable housing portfolio. While it would have been easy for Alterna to refuse to bear the entire risk, they were encouraged by the PSAC commitment to socially-responsible investing, and sought to construct a vehicle by which this could be implemented.

Return On Investment

The Fund has demonstrated how to create a secure investment to invest in a social issue, with both financial and social return. There are ways to measure this social return, such as showing that affordable housing is being built, and tracking progress and uptake by low-income households. The downstream community benefits can be even more important, particularly when one considers how a successful model could be applied to other urban and rural communities that are facing similar affordable housing crises.

At the organizational level, there are also significant benefits. The PSAC pension fund investment demonstrates an organizational commitment to incorporate social and environmental considerations into their portfolio, contributing towards positive stakeholder perceptions. In addition, there is mounting evidence a more complete analysis of social and environmental considerations can

enhance the ability to control for risk factors of a portfolio. Together, they are suggestive of broader trends towards socially-responsible investment by institutional investors.

As financial institutions with deep roots in their communities, both Alterna Savings and the Ottawa Community Loan Fund recognize the importance of adding the “social factor” into their profitability models. Both organizations are concerned with the financial and social returns of their investments, and the Housing Fund represents one financial vehicle that has the potential to generate this “blended value” return.³ This alliance also makes the business case for investing in communities, and that community investment can be good business.

A Model For Others

Billed as the first such investment by a pension fund in the country, PSAC’s commitment to creating access to affordable housing provides both a financial and social return on investment. This case study provides a model to encourage financial organizations to tackle social issues in an organized and focused approach, leveraging the strengths and expertise of different groups in a partnership. The key success of this partnership is the ability to engage the right partners through a common commitment to socially-responsible investment in communities.

In Canada, there is an incredible opportunity to replicate and scale up similar initiatives, consistent with the increasing interest to socially-responsible investing by institutional and retail investors. There were an estimated \$433 billion in SRI pension assets in 2006.⁴ Institutional investors in particular, who are coming under pressure through shareholder advocacy, can use this example as one of the range of credible options by which they can invest in communities while meeting their fiduciary responsibilities.

This case is thus not only relevant to pension

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³ For more information on “blended value” investing, visit www.blendedvalue.org

⁴ *The Social Investment Organization* (2007) “Canadian Socially Responsible Investment Review 2006”, <http://www.socialinvestment.ca/documents/SRIReview.pdf>, p.30

⁵ *Ibid.*, pp.29-30

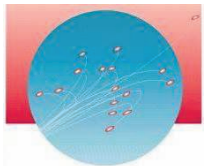
This case study was written by Karim Harji, Social Finance Program Officer at the Carleton Centre for Community Innovation, in January 2008. It benefitted from conversations with George Brown from the Ottawa Community Loan Fund; Arthur Carkner from the Public Service Alliance of Canada; Eugene Ellman from the Social Investment Organization; Tessa Hebb from the Carleton Centre for Community Innovation; and John Schwartz from Alterna Savings Credit Union.

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funds – other institutional investors can draw on the Fund as a model for community investment that can generate both financial and social returns. Various levels of government, foundations, and other large pools of capital can also be involved – and lever the investments of other groups. These initiatives often require time and effort to innovate and conduct due diligence with non-traditional sources of finance. In Canada, the infrastructure needed to structure similar deals remains underdeveloped. This accentuates the need to collaborate with groups that possess the collective expertise necessary.

This partnership also provides evidence of the business case for investing in affordable housing. Innovative models based on a double or triple bottom line require some creativity and open-mindedness, but they can generate positive financial and social returns. Private investors must move away from a “charity” mindset to new models of community investment. Concert Properties of BC also represents a successful example of economically targeted investment in Canada.⁵ Innovative mechanisms will need to be built to manage risk, but these can be constructed within the existing regulatory framework with healthy doses of creativity and commitment.

Selected Resources

Public Service Alliance of Canada: www.psic.com

Alterna Savings Credit Union: www.alterna.ca

The Ottawa Community Loan Fund: www.oclf.org

The Carleton Centre for Community Innovation:
www.carleton.ca/3ci

Centretown Citizens Ottawa Corporation:
www.ccohousing.org

The Social Investment Organization :
www.socialinvestment.ca

Isla Carmichael (2005) Pension Power: Unions, Pension Funds, and Social Investment in Canada, Toronto: University of Toronto Press

Lisa Hagerman, Gordon Clark, and Tessa Hebb (2007) “Investment intermediaries in economic development: linking public pension funds to urban revitalization”, Community Development Investment Review, Federal Reserve Bank of San Francisco, 3(1), pp. 45-65.

Anna Steiger, Tessa Hebb, and Lisa Hagerman (2007) “The Case for the Community Partner in Economic Development”, <http://urban.ouce.ox.ac.uk/network/steiger-paper071210.pdf>

Carleton Centre for Community Innovation

The Carleton Centre for Community Innovation (3CI) brings together superior academic research and knowledge dissemination to Canadian communities in ways that promote long-term growth and sustainable development. One of Canada’s leading sources of expertise in social finance, 3CI has also played a leadership role in grant-making, evaluation and policy analysis in the fields of community economic development and social enterprise. From 1997 to 2008, the Centre managed the Community Economic Development Technical Assistance Program (CEDTAP), with the support of The J.W. McConnell Family Foundation, The Ontario Trillium Foundation, Bell Canada and other partners. Other action-research priorities for 3CI include local governance, community learning and community-university partnerships.

www.carleton.ca/3ci
ccci@carleton.ca

tel: (613) 520-5792
fax: (613) 520-3561