

# Affordable rental housing governance: Exploring drivers of organisational hybridity

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Photo: Guardian Housing Network, 2015

# The Holy Grail: (affordable) institutional investment



- 20<sup>th</sup> century: government, local banks, building societies, pension funds financed new affordable urban housing supply (home bias)
- Renewed quest for steady streams of large scale private debt and equity investment
- Collective savings of >100% EU GDP
- Target investors: pension funds, insurance companies, **banks**



# Europe: quest for private capital as a driver of organisational hybridity in housing associations

Diversification into commercial activities to yield profits that will cross-subsidise core social operations (Morrison, 2016) (Mullins et al., 2012)

Organisational transformations to attract private loans and equity investments (Aalbers et. al, 2015)

- 'Mega-mergers' to maximise asset bases
- Building commercial track records to achieve private credit ratings
- Using complex financial instruments to manage interest risk on loans

Magical and monstrous outcomes (Blessing, 2012)

- Tensions between scale and efficiency and local accountability (Mullins, 2006)

*Despite growing societal reliance on their decisions, investors are seen primarily as market actors following market signals, their organisational identities left relatively underexplored!*

# Reinvest: Financing Affordable Housing Under Localism

*Investors are both market and social actors (Crouch, 2012)*

Focus on organisational identities of target investors and urban institutional environments they operate in.

- How investments in affordable rental housing connect to investors' internal logics and structures (**organisational hybridity**)
- Governance structures motivating investment
- Spatial dimensions of investments (Home bias?)

International comparative research in US and European financial and cultural urban centers: New York, London, Amsterdam

# US: Success in channelling institutional investment into affordable rental housing



- Dwellings yielded from low-income housing tax credit and other affordable housing programs make up 15% of rental stock, higher in major cities (Schwartz, 2012)
- Demand for investment in affordable rental housing and other community projects relies on 'quasi markets' for social investments that are affirmatively created with regulatory powers
- Largest investor-class are regulated banks
- Impacts of these powers on the organisational hybridity of regulated banks and other actors in the affordable housing industry
- Implications for affordable housing finance



# Community Reinvestment Act 1977



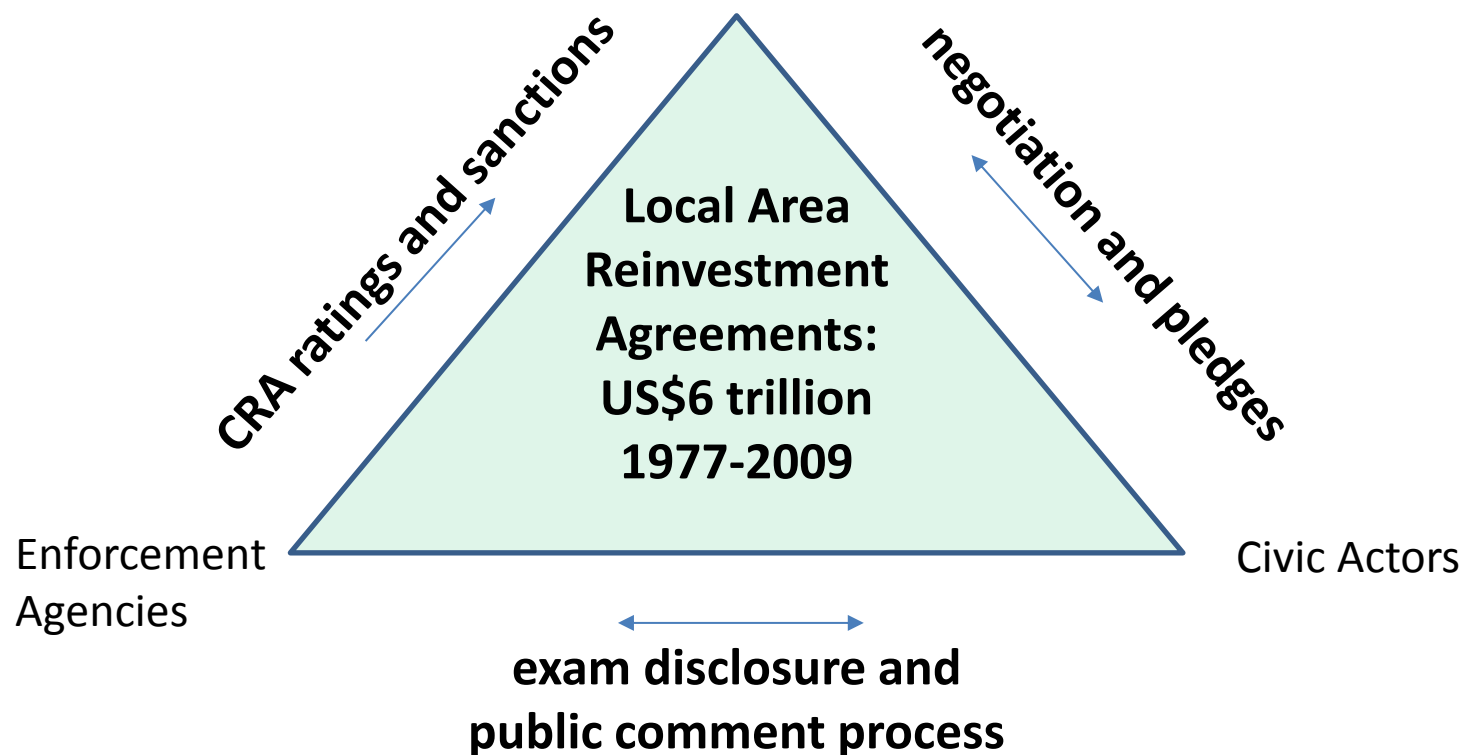
- Civic activism in response to redlining
  - Requires depository institutions to demonstrate that they meet the credit needs of the communities in which they operate, including low- and moderate-income constituents, within the limits of safe and sound operations
  - Credit for lending to individuals, service, but also community development, including investment in affordable rental housing in census tracts where they have low and moderate income depositors (Home Bias)
- 
- Biannual exams with results made public
  - Competitive assessment
  - Opportunities for state and also civic enforcement

## Have a comment about a bank's CRA performance?

- Submit comment and contact information for consideration during its next CRA examination<sup>1</sup>

Submit

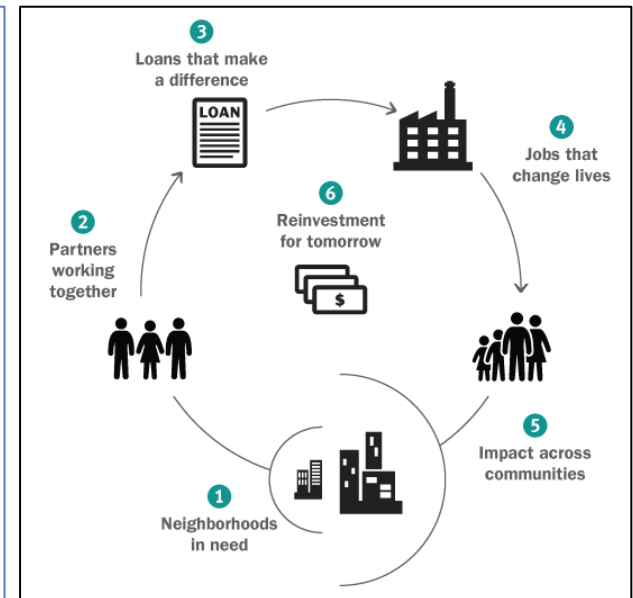
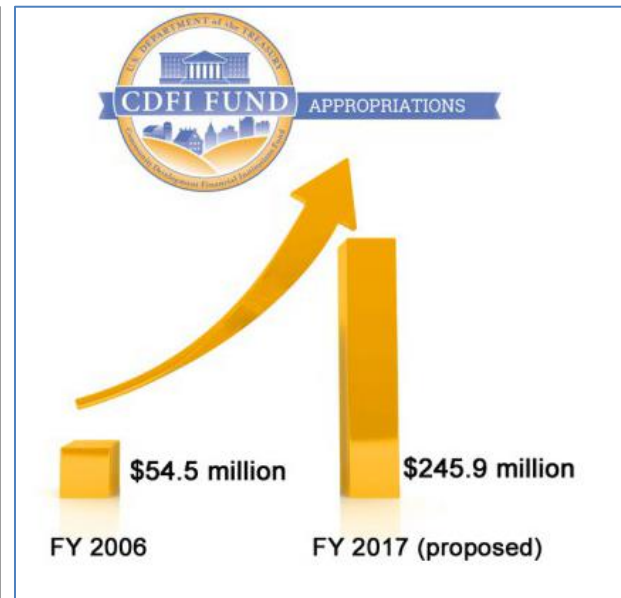
CRA- regulated  
banks



# Does the CRA drive organisational hybridisation?

*1. 'Inter-organizational' hybridity: services and programs that combine bureaucratic and commercial tasks and action logics, and rely on ongoing collaboration across sectors (Nguyen et. al., 2012)*

- Growth of Community Development Corporations
- Growth of Community Development Financial Institutions







## 2. ‘Intra-organisational’ hybridity: “shallow” or “entrenched” (Billis, 2010)

Indicator: development of specialised units for CRA-compliance

*“In the United States, the Community Reinvestment Act (CRA) obliges regulated banks to help meet the credit needs of low to moderate income communities. The Community Development Finance Group (CDFG), which makes loans and investments within low- and moderate-income communities, is the center of competence for Deutsche Bank’s global social finance work. Our commitment goes well beyond the legal requirements and the Federal Reserve Bank has consistently awarded Deutsche Bank with an “outstanding” rating for its CRA performance over the past 20 years.”*

**The Deutsche Bank Community  
Development Finance Group**

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# Two headed monsters? Janus Face?

## US cities

- “Goldman's increased commitment to community-development loans and investments came as the firm worked to rebuild a corporate reputation ...after the financial crisis.”
- “Two-thirds of Goldman Sachs's community-development loans and investments, or \$1.3 billion, were made in the firm's home base of New York and surrounding areas”.
- “Dear Ms. Yellen & Mr. Hurwitz: I am writing on behalf of the Association for Neighborhood and Housing Development (ANHD) to comment on Goldman Sachs’s application to acquire certain assets and liabilities of GE Capital Bank...” (ANHD, 2015)

## European Cities

“Last year Madrid’s city and regional governments sold almost 5,000 rent-controlled flats to private equity investors including Goldman Sachs and Blackstone. At the time, the tenants were told their rental conditions would remain the same. But as old contracts expire, dozens of people have received demands for higher rent.....”



Powers to govern  
institutional investment in  
urban financial centres:  
Restoring a home bias

*“As the financial capital of the world, New York City can creatively leverage these institutions’ resources to support housing and neighborhood development, both in the neighborhoods in which their employees are based and in neighborhoods from which they draw deposits”. (Housing New York: A 10 borough, 5 year plan )*

# Conclusions and Questions

Hybrid housing associations, hybrid financial institutions, or a combination of the two?

Advantages, disadvantages for affordable renting housing provision?

Does hybridity in regulated banks stimulate non-regulated institutions to finance (isomorphism, risk spreading)

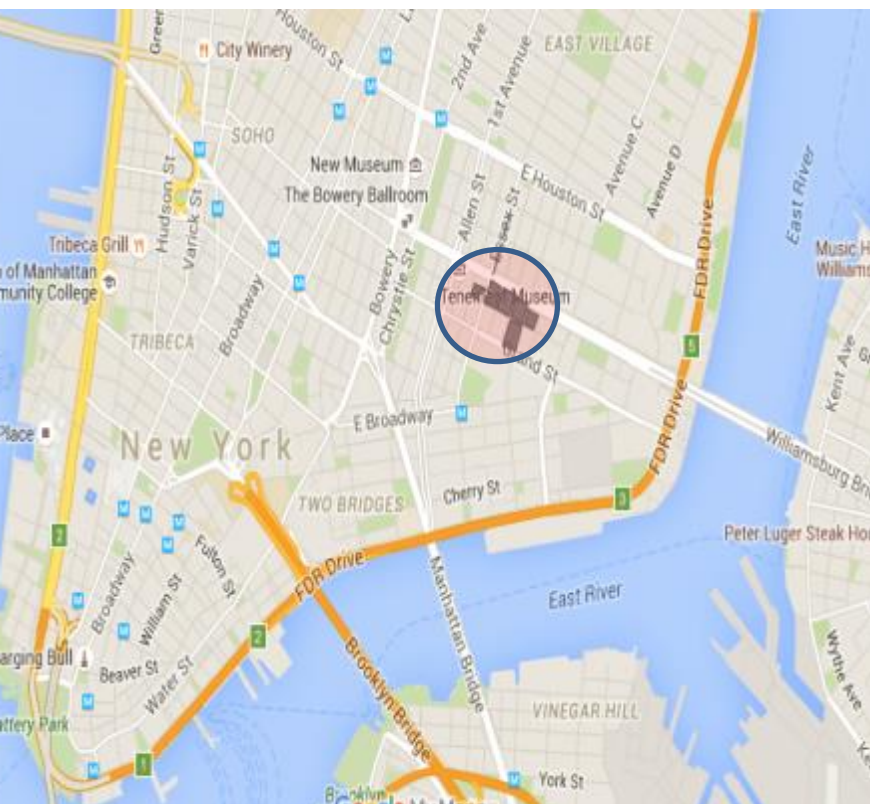
Reciprocal community obligations for pension funds?





# Essex Crossing, NYC

1,000 housing units, 50% affordable to low-, moderate- and middle-income households. Community spaces and facilities, including a school and community center that will provide early childhood and senior services; and a rooftop urban farm. Local small business incubation hub



## Housing – Affordable Housing Distribution

- **743 rental units in 50/50 buildings**
  - Site 2: 98 affordable / 97 market-rate
  - Site 3: 49 affordable / 49 market-rate
  - Site 4: 119 affordable / 125 market-rate
  - Site 5: 102 affordable / 104 market-rate
- **100 senior units in 100% senior building**
  - Site 6: 100 affordable units
- **157 homeownership units in 80/20 buildings**
  - Site 1: 11 affordable / 44 market-rate
  - Sites 8, 9 and 10: 21 affordable / 81 market-rate

