Corporate Social Responsibility in housing management: Is it profitable?

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Abstract

The purpose of the study was to evaluate Corporate Social Responsibility (CSR) in the context of real estate management. Different operation cost indicators are identified and related to the estates’ social condition. The empirical material was collected from the company’s accounts and by interviews with the staff and is based on a comparison between two similar areas that mainly differed in how much resources the company invested in social projects and maintenance. The results indicate that CSR leads to approximately 4.5 percent lower annual operating and maintenance costs which improved the company’s profitability, especially if higher maintenance standards made higher rents possible. Other advantages were improved goodwill which led to new business opportunities. From a practical perspective, the study gives a deeper insight into the possible economic advantages of CSR. From the perspective of the scientific community the study shows the possibilities in using a comparative evaluation model together with detailed company data in order to identify important indicators and effects.

Keywords: Economic valuation, CSR, Company policy, Sweden
1. Introduction

1.1 Background and research problem

The housing estates addressed in this study were built after World War II and are prefabricated large housing estates located in disadvantaged neighbourhoods. Usually, these types of areas have high water- and energy consumption, more wear and tear and extensive maintenance costs (Power, 1999; Andersson et al., 2003; Van Beckhoven, 2006). In order to develop these estates and reduce these costs the private landlord in this study has invested in additional staff and social projects. This is seen as action based on Corporate Social Responsibility (CSR), and involves social initiatives as well as cooperation with residents, authorities, schools and non-profit organisations. The explicit aim is to improve residents’ living conditions by increased safety and satisfaction. The implicit aim is to increase the estates’ profitability by lower operation and management costs. Through the CSR initiatives the landlord can also improve its reputation in the industry which can create values not directly attributable to the assets, i.e. new business opportunities and goodwill. These advantages have also been observed within the research field of CSR (see Margolis and Walsh, 2001, 2003).

Since the end of the 1980s, the municipal housing companies in Sweden have improved the local administration, local services and supported local life in large housing estates (Liedholm, 1991; Johansson, 1992; Lindberg, 1994; Öresjö, 1996; Blomé, 2006, 2010). From the end of World War II to the 1980s, the focus was mainly on technical issues and housing production. During the last few decades, several private landlords have become interested in additional social investment, but there are many different ways to organise such resources. Wide experience from the publicly owned part of the housing stock has encouraged more social commitment (see Öresjö, 2006). There are many, especially private landlords, who are not involved in or do not see the advantages of social initiatives or believed that this type of commitment is beyond their responsibilities. Some of these companies are small property owners lacking resources or ambition, while others are only capital-based who lack a long-term ownership strategy (see Lind and Blomé 2011 for an example).

There is an unclear distinction between the responsibility of the public sector and landlord responsibility, and landlords are sometimes forced to become involved in matters outside their normal concerns. Potential efficiency improvements, however, have made some landlords more interested. The landlord’s model of CSR studied in this article is called Relationship Management and was introduced in the late 1990s, but has never been economically evaluated. There are very few viability studies - both from Society’s and the companies’ point of view analysing landlords’ social initiatives (see Blomé, 2011 for a more detailed review). Two explanations of this absence of research are firstly, problems in obtaining detailed company economic data and methodological problems related to the identification of what the effects of the policy really are and secondly, what is dependant on other factors.

The following are examples of economic studies related to deprived housing areas but none of them tried to measure the landlord’s actual savings from a CSR-based policy: Carlén and Cars, 1990; Alfredsson and Cars, 1996; Cars and Karlsson, 1997; Lind and Lundström, 2008. Eriksson (1995) has conducted a similar economic valuation as in this study and drew some
attention to methodological difficulties. The difference between this study and Eriksson’s is that he studied a large scale renewal project in contrast to this study that has analysed CSR in the context of ordinary property management. There are also researchers that have analysed the correlation between social investment and stock market development (Margolis and Walsh, 2001, 2003). Some of these studies analysed future year’s net present value of cash flow, but no studies of this type were found that concerned the real estate sector (see Holthausen and Larcker, 1992; Brown and Perry, 1994).

This study’s aim is to reduce this information gap by identifying costs and evaluating the economic benefits of CSR for a real estate owner.

1.2 Research methodology

The main methodological challenge is to identify what would have happened if the company had not introduced Relationship Management. The strategy in this article is to compare with a similar area where this strategy was not introduced. Both are owned by the same company which made it easier to get comparable data.

Two large housing estates (A and B) that are similar with regard to construction year and social situation are evaluated (see table 1).

- Area (A) with 2,536 apartments, used a model of Relationship Management (CSR) and is located in the city of Stockholm.
- Area (B) with 631 apartments, used a traditional local management with low degree of CSR and is located in the city of Malmö.

Table 1: Basic comparable statistics from (A) and (B)

<table>
<thead>
<tr>
<th>Basic information</th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Room and kitchen</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>2 Rooms and kitchen</td>
<td>44%</td>
<td>21%</td>
</tr>
<tr>
<td>3 Rooms and kitchen</td>
<td>34%</td>
<td>65%</td>
</tr>
<tr>
<td>4+ Rooms and kitchen</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Under age (-18 years)</td>
<td>12%</td>
<td>25%</td>
</tr>
<tr>
<td>Employment (18-65 years)</td>
<td>58%</td>
<td>51%</td>
</tr>
<tr>
<td>Social welfare assistance</td>
<td>10%</td>
<td>14%</td>
</tr>
</tbody>
</table>

The number of family apartments (3- room apartments) and number of underage in (B) are slightly different from (A). However, (B) only three years before this study was conducted used a method similar to (A) although it was a minor model of “Relationship Management”, but this ended since the company in order to reduce cost decided to go back to a normal local housing administration without social initiatives. Unfortunately, there is no obtainable economic data from the earlier period in area (B), but staff who had experience from the period thought there was a big difference and that there was a significant increase in social

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1 The statistics were collected from Malmö municipality (2009) and Nacka (part of Stockholm) municipality (2010).
problems afterwards. A more matched geographical location could possibly improve the comparability, but according to the private landlord these areas were the most comparable ones. The different size of the areas could possibly have some influence on the results, but still the areas seemed similar enough to justify the study.

The public statistics presented for area (A) cover only this housing estate while the statistics for area (B) cover a somewhat larger area. These statistics are based on the local authority’s official statistic Internet web information database available to the public. The residential area (B) is located close to other housing areas in contrast to (A), that only borders on green spaces. Malmö’s large housing estate neighbourhoods are more integrated in the city as a whole compared with Stockholm’s suburban settlements.

The definition of additional operating cost is expenditure related to the estates’ social condition and the tenants’ behaviour. The following cost indicators were, together with the company, identified in the study of the two neighbourhoods: turnover, vacancies, total apartment renovation, maintenance of the outdoor environment, refuse disposal, cleaning, removal of graffiti, broken windows, general destruction, disturbances, unpaid rent and management of unpaid rent. These are described in more detail below.

In order to increase the validity of the results, these results have been carefully checked afterwards, together by the local staff and they have provided assurances that the results correspond very much with their own perceptions of the situation in the area where they work.

Empirical information was collected from the accounts of the company and on 12 interview occasions in 2009, with frontline staff and management, organised as open discussions. Two different neighbourhoods were visited and tenants were met who were engaged in the ongoing activities. Some additional economic company data was later collected through telephone and email. The interviews were done individually or in small groups depending on the circumstances and personnel availability. The staff were asked about their overall strategies, working roles, how everyday tasks were handled, the tenant relationships and they estimated their working time for the different tasks. Important issues to find out were how much time they spent on different management activities related to the estates’ social condition during the year under study. 2008 was used as a data collection year and is considered to be an average year according to both neighbourhood managements. A staff working hour is counted at a cost of 250 SEK per hour which is an accepted standard remuneration for personnel with no managerial position. All economic calculations are presented in cost per apartment to facilitate the comparison between the two areas.

2 Relationship management: Description and cost

The organised social projects in area (A) are summarised in three categories related to the management of the estates: Youth Projects, Tenant Mobilisation and Networking. The local administration also employed a person solely to coordinate the projects. The basic idea behind the landlord’s initiatives is to enhance relationships between staff and residents and improve residents feeling of satisfaction and safety. Another aim is to involve the residents in the management process, improve the company’s reputation and attract new potential tenants. Because of the social initiatives the landlord is considered to be the responsible owner. The youth projects included a graffiti group, cleaning team, summer jobs and annual organised summer camp. The graffiti group cleaned the properties from graffiti together with frontline
staff and participating individuals got an opportunity to go on a free of charge skiing trip. The cleaning team consisted mostly of younger children and they cleaned common spaces of litter one evening every week. The participants were given clothes and could attend the summer camp for free. Summer jobs were organised from the landlord’s local office and included chores associated with gardening, cleaning and caretaking. The summer camp contained three activity weeks for youngsters organised together with local sport associations.

The purpose of Tenant Mobilisation is increased residents’ area commitment and consisted of stairway hosts, safety walks organised by parents at weekends in the evenings/at nights and identity improvement projects. All the estate stairways have an organised stairway host who was replaced annually and receives a small economic compensation from the landlord. In addition, one important task for the host was monthly meetings with the frontline staff about needs. Organised safety walks were carried out in order to prevent problems and identify social as well as psychical defects. The identity improvement projects included identifying and sponsoring of key non-profit organisations.

The last category Networking contained collaborations and meetings with important local public bodies e.g. municipality, police, school and commercial service.

When the study was carried out, (B) unlike (A) had no organised social projects, but some minor resources were earmarked for tenant meetings and a sponsored second hand market sale. The additional direct social project cost CSR in (A) was 470 SEK per apartment (approximately 1 percent of annual operation and maintenance costs) while it was 86 SEK per apartment in (B) which included both the project and staff expenditures. The next section presents the identified effects on operating costs.

### 3 Effects on operating costs

#### 3.1 Turnover, vacancies and total apartment renovation

These indicators are closely related to rental income and tenant control. The turnover frequency was 11 percent in (A) and 9 percent in (B) which is similar and included expenditure to manage inspection and some minor renovations. The cost difference presented in table 2 in section 4, is estimated with the help of frontline staff from an average cost of 15,000 SEK for each turnover (1,674 SEK per apartment in (A) compared to 1,331 in (B) SEK per apartment). This level seemed acceptable and is a widely accepted industry standard, but it can differ from case to case. A certain turnover is positive for the city’s development e.g. issues related to the labour market. Some factors that have a major influence on expenditure is the tenants' care of the apartment during tenancy, how the apartment was renovated and the degree of administration required. Although turnover was lower in (B) compared to (A) the deviation is small and does not differ from the norm. A high turnover difference between years or in relation to neighbouring areas, is however, assumed to be related to a lower degree of satisfaction or negative external reputation.

There were no vacancies caused by low demand in (A) and in (B) (0 SEK per apartment). The vacancies that exist are mostly natural due to the short time period between a tenant moving out and a new tenant moving in. A low satisfaction in an area will reduce the demand if there are other available housing alternatives. This will also increase expenditure because the landlord needs
additional resources to attract new tenants e.g. through advertising. The pressure on developing regions has been substantial in recent years, e.g. Stockholm, Göteborg and Malmö and rent regulation has created queues in most areas.

The total apartment renovation cost is a potential problem in deprived areas (see table 2). With the help of both local management teams the cost was calculated at approximately 100,000 SEK per average destroyed apartment. This indicator seems unpredictable according to the staff which makes it difficult to include, but still it indicated a problem because it was more common when other social cost indicators increased. The neighbourhood (A) had no such case in contrast to (B) were 5 cases of total apartment renovation occurred during 2008 (0 in (A) compared to 792 SEK per apartment in (B). Although cases are few, the situation in (B) has according to local staff, clearly deteriorated.

3.2 Maintenance of the outdoor environment, refuse disposal and cleaning

These variables are closely linked to the caretaking process and the tenants’ behaviour. The indicator was calculated based on how much time the frontline staff spent on maintenance of the outdoor environment (see table 2). The number of additional hours annually in (A) is estimated to be 416 hours compared with (B), 1,300 hours. The outdoor environment provides signals about the area's deprived situation and people’s behaviour which seemed to be much worse in (B) compared with (A). The cost was calculated to 41 SEK per apartment in (A) compared to 515 SEK per apartment in (B).

The cost of refuse disposal is calculated based on how much time the frontline staff spent beyond the normal routines? The fixed cost to remove the refuse is not included. In addition, the staff worked hours spent in (A) is estimated at 520 hours annually compared to (B), 1,300 hours (see table 2). This meant a cost of 51 SEK per apartment in (A) compared to 515 SEK per apartment in (B). The refuse situation provides a picture of the tenants’ sense of responsibility. The management choices, the design of routines, information given and selected technical solutions are also important factors influencing the conditions. For example (A) had some technical problems, but still significantly less resources allocated to refuse disposal compared with (B).

The cleaning cost contained the total sub-contractor payment, which was 644 SEK per apartment in (A) compared to 937 SEK per apartment in (B). This type of data is collected from the company's accounting system. There is a basic cleaning requirement to fulfil although it can differ and the cleaning is adapted to meet the estate needs associated with those who live there (see table 2). It is not possible to separate the fixed contractor cost and expenditure for ordered additional cleanings, since it was a part of a fixed contractor price procured by the landlord. The agreement was built on last year's field situation. The difference measured between (A) and (B) are probably affected by the procured agreements but also additional cleaning frequency in (B) which also was confirmed by both management teams.
3.3 Broken windows, removal of graffiti and general destruction

These variables are directly related to the residents’ behaviour. Broken windows are a recurring management problem in many deprived areas. This indicator is calculated based on how much time the frontline staff spent and the cost of replacing an average window which is approximately 2,500 SEK. In some companies this data can be found in the accounts. The management in (A) replaced 120 windows linked to deliberate damage compared with 100 windows in (B). Destroyed windows are an important indicator of problems related to frustrated individuals, but is not always caused on purpose. In (B)’s case, the percentage of broken windows remained at a constant level during the last few years and in (A), the management noticed a huge drop compared to previous years. The calculated cost was 118 SEK per apartment in (A) compared to 296 SEK per apartment in (B).

The graffiti problem is a common phenomenon in many deprived neighbourhoods and led to additional resources to remove graffiti beyond the frontline staff’s normal working routines. The graffiti indicator is calculated based on the additional working time the frontline staff spent on cleaning activity related to graffiti. In (A) 312 staff hours were spent annually compared to (B), 104 hours spent. This meant 31 SEK per apartment in (A) compared to 41 SEK per apartment in (B), see table 2. A group of younger people, organised by the landlord in (A) helped the frontline staff with graffiti elimination. According to the company, this was a very successful strategy.

The general destruction cost was low in both neighbourhoods, but significantly higher in (A) compared with (B). This indicator included repair of deliberate damage, various carpentry damage, destroyed locks and lighting and was based on the company’s accounting records (see table 2). The general destruction in (A) is 15 000 SEK related to broken lightning, 200 000 SEK for broken locks and doors compared with 15 000 SEK in (B). The management teams confirmed the general destruction was highly influenced by the areas social condition and (A) has had a temporary period of burglaries which increased the cost, while (B) did not suffer from this type of problem. The cost was 85 SEK per apartment in (A) compared to 24 SEK per apartment in (B). Together with turnover and management of unpaid rent, these indicators are the only ones that differed from the main pattern, i.e. that (A) has lower costs than (B). Local variations, unreported incidents unreported and different routines behind reported incidents are important factors affecting this indicator.

3.4 Disturbances, unpaid rent and management of unpaid rent

Variables such as disturbances, unpaid rents and management of unpaid rent are also much related to the residents’ behaviour. The additional cost related to disturbances included external contractor expenditure to administer noise reports in the evenings, at nights and during the weekends. The frontline staff cost was also included and calculated based on worked hours to administer reported disorders. The staff in (A) spent 208 hours annually compared to (B), 520 hours annually besides the external fixed contractor cost. Most problems seemed to occur at nights and were related to lack of management's stated rules, social imbalance and tenants’ lack of responsibility which was more extensive in (B) compared with (A). The cost per apartment was calculated at 172 SEK in (A) compared to 423 SEK in (B).
The level of unpaid rent is relatively unchanged and the data was collected from the company's accounts and is documented as a reduction in rental income. The loss per apartment was 102 SEK per apartment in (A) compared to 455 SEK per apartment in (B). In this case, the cost in (A) was significantly lower than in (B) which is assumed to be related to (A)'s management of unpaid rent as a part of the landlords’ CSR initiatives.

Management of unpaid rent is calculated based on how much time the frontline staff actually spent on administration related to the tenants' payment files. The cost was calculated at 103 SEK per apartment in (A) compared to 82 SEK per apartment in (B). This administration included social considerations, tenant consultations, contact with the social workers, payment plans and rent payment control. The difference between the two neighbourhoods’ is relatively small and both management teams seemed to use fewer resources today although the level of unpaid rent was much lower in (A).

4 Economic evaluation of CSR

4.1 The results of the study

This study compares two fairly similar areas where the company used different management strategies that can be interpreted as different degrees of Corporate Social Responsibility (CSR). Area (A) used a model with CSR and area (B) used an ordinary management with a low degree of CSR. A summary of the differences indentified can be found in table 2 and all economic data is presented as cost per apartment. In the table there is also added an alternative calculation that also includes possible effects on rent levels discussed further below.

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operation management costs (SEK)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>1674</td>
<td>1331</td>
</tr>
<tr>
<td>Vacancies</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total apartment renovation</td>
<td>0</td>
<td>792</td>
</tr>
<tr>
<td>Maintenance of the outdoor environment</td>
<td>41</td>
<td>515</td>
</tr>
<tr>
<td>Refuse disposal</td>
<td>51</td>
<td>515</td>
</tr>
<tr>
<td>Removal of graffiti</td>
<td>31</td>
<td>41</td>
</tr>
<tr>
<td>Broken windows</td>
<td>118</td>
<td>296</td>
</tr>
<tr>
<td>General destruction</td>
<td>85</td>
<td>24</td>
</tr>
<tr>
<td>Cleaning</td>
<td>644</td>
<td>937</td>
</tr>
<tr>
<td>Disturbances</td>
<td>172</td>
<td>423</td>
</tr>
<tr>
<td>Management of unpaid rent</td>
<td>103</td>
<td>82</td>
</tr>
<tr>
<td>Unpaid rent</td>
<td>102</td>
<td>455</td>
</tr>
<tr>
<td><strong>Relationship management (CSR)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social projects</td>
<td>470</td>
<td>86</td>
</tr>
<tr>
<td>Total</td>
<td>3635</td>
<td>5557</td>
</tr>
<tr>
<td><strong>Alternative calculation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental compensation 2%</td>
<td>-950</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>2685</td>
<td>5557</td>
</tr>
</tbody>
</table>

The general pattern for the majority of the indicators were higher operating costs in (B) with a low degree of CSR compared to (A) with a high degree of CSR. The estimated social cost is
5,557 SEK in (B) compared to 3,635 SEK per apartment in (A) which is the same as approximately 4.5 percent lower operating- and maintenance costs. The CSR expenditure was 470 SEK in (A) compared with 86 SEK per apartment in (B).

This estimated effect might be the result of a variety of coincidences and there is some measurement problems discussed in the methodology section above, but the difference is nevertheless more likely explained by the two neighbourhoods’ different degree of CSR. The local management units in (A) and (B) have both experienced more administrative difficulties in periods when the landlord reduced the CSR engagement. The measured reduction in operating cost is similar to the pattern found in other comparable studies (Blomé 2010; 2011). The experience from this study uncovers a need for an early involvement of management and tenants in order to align the two parties’ interest from the start.

So far the calculation has not taken into account that it might be possible to increase rents if an area is better managed and the tenants are more satisfied. An alternative calculation could in (A) add a potential opportunity to increase rents by maybe 2 percent (950 SEK additional rent income) compared to 0 SEK per apartment in (B). Such an increase seems reasonable to compensate for the landlord’s social engagement in (A) and with such an assumption the profitability of the CSR-policy would be even higher. Housing rents are set after collective bargaining in Sweden and the Tenants’ Union has announced that it will take local housing conditions more into account which makes this assumption reasonable.

Society will probably also benefit from CSR as it, for example, could reduce crime related costs for individuals and government authorities although this is not further analysed here.

An effect of CSR is that the landlord is considered reputable and this has made it possible for the company to acquire residential properties in socio-economic weak areas from municipalities. These property transactions, according to the municipalities themselves only occurred because of the company’s social commitments. New business opportunities were also something that Margolis and Walsh (2001, 2003) have identified as a potential advantage of CSR.

4.2 General discussion

The estimated reduction in operation management cost linked to CSR initiatives is a good motivation for private landlords, but is it enough to get them more interested in social concerns? From a local community perspective, CSR is very positive and should perhaps lead to some sort of additional economic compensation, as in the example presented above with 2 percent rent increase. The level of rent is an important instrument in a country with rent regulation and essential for the landlord’s strategic choices regarding the property if they are effectively designed and contain incentives to provide appropriate resources to maintain or improve quality. This also requires reducing rents when properties are neglected. This has not always been the case, as there are a number of examples of poorly maintained properties getting the same rent increases as well maintained areas (see e.g. Lind and Blomé 2011). The landlord initiatives must on the other hand be motivated from a tenant or technical property perspective to avoid private landlord from creating fictitious needs in order to get higher rent.
More research is however needed about landlord incentives and economic effects of initiated landlord investments. The evaluation method also needs to be further developed and refined. The results here have however provided a broader picture of potential benefits of CSR and can in the future lead to more sophisticated accounting and evaluation methods where effects are easier to measure.

5 Concluding comment

The overall question addressed in this study is whether the landlord’s model of Corporate Social Reasonability (CSR), called relationship management, is justified from only a company economic perspective, i.e. does it lead to higher profits. The study compares two fairly similar areas with different degrees of CSR, (A) and (B). Area (A), used a model of CSR and (B) used a more traditional local management policy with low degree of CSR. The property managers responsible for (A) and (B) were convinced that CSR is successful with positive values related to improved tenant relationships and increased housing satisfaction. Other values that were identified were more strictly profit-related, e.g. reduced operation and management costs and new business opportunities. The result presented should be seen as a first step towards a better understanding of the economic consequences of CSR in a real estate context and the following points represent the most interesting parts of the study.

- The additional social project cost CSR in (A) was 470 SEK per apartment (approximately 1 percent of annual operation and maintenance costs) while it was 86 SEK per apartment in (B) which included both the project and staff expenditures.

- The estimated operating costs related to social costs are 5,557 SEK in (B) compared to 3,635 SEK per apartment in (A) which means approximately 4.5 percent lower operating and maintenance costs and this is most likely explained by higher degree of CSR in (A).

- An additional calculation gave (A) a potential opportunity to increase the rent by 2 percent because of CSR which is 950 SEK in additional rent income per apartment. Landlords engaged in CSR should be rewarded by e.g. higher rent which could be important incentives for them to become more responsible.

- The landlord is considered reputable and has been able to acquire residential properties in socioeconomic weak areas from municipalities. This mean that the landlord’s social engagement has resulted in new business opportunities and goodwill which was very advantageous from a company perspective.

References


