





Building HEALTH & WELL-BEING

The time is
NOW

Buildings do more than just house tenants — they can improve on the health and well-being of their occupants. While research around the ROI of health and well-being measures is gathering pace, senior ESG executives argue that, in the aftermath of a global pandemic, this is the time to take action. Health and well-being is about the safety and security of tenants and users. Improving environmental conditions can also positively impact productivity.

*NAREIM speaks with **Jill Brosig** of Harrison Street, **Laura Craft** of Heitman, **Rachel Hodgdon** of the International WELL Building Institute and **Sara Neff** of Kilroy Realty Corporation on the impact of Covid-19 on the work already underway, how to further improve the tenant experience and how small actions could have many beneficial long-term impacts.*

By Zoe Hughes

PARTICIPANTS


Jill Brosig, Managing Director and Chief Impact Officer, Harrison Street

Jill oversees the measurement, management, reporting and enhancement of Harrison Street's environmental and social initiatives. She is also responsible for identifying ingenious approaches, including leveraging products, technologies and partnerships, to create measurable, positive impact and value. Prior to joining Harrison Street, Jill was with Motorola, Inc. where she executed a variety of corporate initiatives including e-learning, Digital Six Sigma, leadership pipeline management, and fashion and women's market strategies. She is a certified Six Sigma Master Black Belt.


Laura Craft, SVP, Head of Global ESG Strategy, Heitman

At Heitman, Laura establishes systematic approaches to incorporate ESG into investment decision-making and management of private equity, private debt and public securities investments. Laura leads a partnership with Urban Land Institute to publish Climate Risk Investment Decision-Making Reports, which explores methods for assessing and mitigating climate risk at the investment and market level. In 2020, Heitman announced its commitment to reduce its global private equity portfolio's operational carbon emissions under its control to net zero by the year 2030.


Rachel Hodgdon, President & CEO, International WELL Building Institute

Rachel joined the International WELL Building Institute (IWBI) in November 2016, bringing her broad sustainability expertise and her track record as a leading global advocate for green schools, movement building and social equity to IWBI's work to advance human health through better buildings, more vibrant communities and stronger organizations. With over one billion square feet of space registered and certified in 65 countries, IWBI's evidence-based WELL Building Standard anchors an ecosystem of products and services that advance, measure and monitor real estate features that help people thrive.


Sara Neff, SVP, Sustainability, Kilroy Realty Corporation

Sara took Kilroy from having no sustainability program to being named the #1 publicly traded real estate company on sustainability in the Americas by GRESB for seven of the last eight years, and under her leadership the company achieved carbon neutral operations by the end of 2020. At Kilroy, she oversees all sustainability initiatives such as solar and battery dealmaking, energy implementation and water efficiency initiatives, the integration of sustainability standards into annual financial reports, and the Kilroy Innovation Lab.

When real estate investment managers first started focusing on ESG, attention was first paid to the E, the environmental aspects, by helping reduce the carbon footprint, water usage, etc. As part of that attention, there were a lot of conversations regarding the ROI of environmental or green building solutions. Conversations are now taking place as we look to health and well-being. How do you look to the ROI of health and well-being solutions and strategies in your assets?

Sara Neff, Kilroy Realty Corporation: Whenever anyone says, "What's the ROI?" My response is always, "What's the ROI on holiday decorations?" We pay money for them every year in our lobbies, they make our tenants happy and it's the right thing to do even though we don't have an exact ROI on that investment. Investing in health is the same thing: it's hard to calculate the ROI but we know it's the right thing to do.

There are decades of research connecting buildings and human health outcomes. And, on an overall basis, investing in health is not a large financial burden. It's not expensive to get the [health and well-being] basics right as long as you plan for

¹ Preliminary findings from The Financial Value of Healthy Buildings study by Andrea Chegut and Natasha Sadikin.

them and develop your buildings correctly. Our residential tenants really appreciate it and, at this point, it's also risk management especially in a time like the Covid-19 pandemic.

Jill Brosig, Harrison Street: It's important to take a step back and define success. It shouldn't be just about getting X number of health and well-being certifications. It should be comprehensive. Once certified, firms need to have a plan on how to market the certification, to attract and retain tenants, and to use it to differentiate them from the building down the street.

I agree with Sara that this is the right thing to do. But I also believe that health and well-being, while a more qualitative topic compared to traditional environmental factors, can be measured.

MIT recently did a study on buildings that had healthy certifications versus those that didn't. Their initial study found that those buildings with healthy certifications had a 4% higher effective rent per square foot than non-certified buildings.¹

Fundamentally, it's about offering the building's occupants an enhanced experience while creating value for the asset and our investors. It's our job to communicate to our stakeholders why this work creates value. In our experience, once we do, they see the building as more attractive because tenants remain longer, people talk about how positive the experience at that building is, and what the property provides.

Laura Craft, Heitman: The Covid-19 pandemic has opened many people's eyes to social factors, including the health and safety of buildings. As important as energy reduction is, a visitor to a commercial office and retail space is going to care more about the health and safety of that space during a pandemic than they will be about the energy efficiency of that space. Health and safety aspects have become more of a binary determinant of whether visitors will go or will not go into a commercial space. These social factors are more of a demand driver than environmental issues during the Covid era. I see an ROI in investing in health and well-being to set your building apart and create a stickier employee, occupant and visitor. When health and safety initiatives are implemented, stakeholders can perceive your building as better run and higher quality than the building next door.

ROI from health and safety initiatives will mostly likely come through increased demand and use which can translate into revenue. The ROI for energy is about lowering costs and operating expenses. Health and safety is a different play, which can drive the demand side of the equation. For instance, at a

retail mall, if visitors feel the space is healthy and safe, visitors are more likely to shop. Retail tenants want to be where the shoppers shop. The same goes for office space — corporate tenants want to be able to provide a space for their employees that is healthy and safe.

But health and well-being, as Jill said, is qualitative and more subjective of an area to measure than knowing how much can be saved from energy and utility bills. Where are you facing challenges in measuring results and success?

LC: It's about stakeholder attraction and retention ratios; the stakeholders being tenants, employees and visitors. For a building, higher tenant satisfaction and higher retention means less down time and turnover cost.

SN: A lot is driven by the broker community. Our certified buildings cannot prevent sick people from entering the space and potentially getting others sick; the certifications mean that we've taken third-party verified measures to mitigate potential disease transmission. Learning how to explain that to a potential tenant requires some education. Our broker and leasing team now knows how to talk about well-being, and we're starting to see these benefits.

Rachel Hodgdon, International WELL Building Institute: From an ROI perspective, recruitment and retention of the best tenants or the best talent is the top motivator. Silicon Valley conditioned Millennials looking for their first job and being heavily recruited out of college to be the "amenities generation." Companies were offering sleep pods, scooters and rock climbing walls. The other thing that started to happen, which is a generational shift, is that Millennials started to say, "I expect to work for an organization that aligns with my personal brand, and I expect to work for an organization who will take care of me as a whole person." That combination really shifted what employers needed to do to recruit and retain the best talent in the workplace.

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At WELL, we start from the question: What is this building going to do for me? What is this workplace going to do for me and my health and, by extension, my family? Then we put a science-focused and data-focused lens on top of that notion of the amenities-filled building. With this approach, many of our customers see improved recruitment and retention, not just of Millennials, but of all talent.

We have decades of evidence showing connections between building and human health. The Harvard School of Public Health conducted a double-blind study [The Impact of Green Buildings on Cognitive Function or CogFx] and found that enhancements to air quality and other environmental conditions had a measurable impact on cognition, problem solving and thus on overall aspects of productivity. Those things can be harder to measure, for sure. What we haven't necessarily had are multiple longitudinal studies that consider the variables associated with healthy building improvements in combination. But increasingly, many organizations are making portfolio-wide commitments and are able to start studying people-first enhancements or improvements to their spaces and measuring ROI across their building stack.

INCREASING THE HEALTH AND WELL-BEING FOCUS

How have you all focused on health and well-being inside your assets during the pandemic?

LC: We have been focused on cleaning protocols and indoor air quality for a period of time, but Covid-19 has motivated

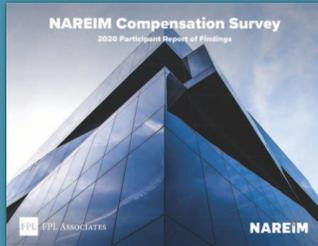
everyone to take a closer look and see if we are doing enough. In many ways, it accelerates the journey around creating well-being standards and best practices. As an investor in a building, we want to provide to our tenants highly desirable spaces and amenities, which now more than ever includes enhancing the intangibles like health and safety. For example, making sure high-touch surfaces are safe and clean, increasing fresh air supply to dilute indoor air pollutants, and conducting checks on proper air treatment and filtration.

SN: I hope that Covid will make people start thinking about buildings as something that has external impacts, both health-wise and on the environment. For example, janitors are on the front lines and people are starting to realize how critical they are to preventing disease transmission. Janitors are the people who are being asked by the tenants, "Is this safe? Can I go in here? What are you using?" That's why janitors are also a major part of our health programs.

There are several certifications relating to health and well-being, the most notable being WELL and Fitwel. Why get certified and where are you in the certification process?

LC: We wanted to rely on a third-party standard to say, "Here are experts that are saying what they think is appropriate in terms of cleaning protocols and air safety ventilation." When Covid hit, we took a closer look at our office assets. We did a pilot and certified all office assets in our core fund to the WELL Health-Safety Rating. We are now looking to expand certifications to other property types.

Benchmarking research



Compensation Survey

Released in October

Produced in collaboration with Ferguson Partners

More than 300 pages of individual position compensation reports, including functions within:

- Executive management, accounting, asset management, capital markets, corporate marketing and communications, due diligence, engineering, environmental, finance, human resources, investor relations, capital raising, leasing, legal and compliance, portfolio management, property management, risk management, technology, transactions, valuations, debt and REIT securities.



Diversity & Inclusion Survey

Released in January

Produced in collaboration with Ferguson Partners

First corporate benchmark for DEI metrics and best practices in REIM. Covers more than 44 pages of individual data points, including:

- Gender and ethnicity composition by seniority and job functions.
- Best practice metrics relating to the implementation of DEI strategies and initiatives across investment management organizations, including issues relating to ownership & staffing, accountability, tracking & measurement, retention & recruitment, external partnerships and activities, pay equity & transparency.



Global Management Survey

Released in September

Produced in collaboration with Ferguson Partners

Covers more than 65 individual data points of benchmarking, including:

- *Capital raising and AUM:* Net and gross AUM growth capital raised as percentage of year-end AUM and investor concentration ratios.
- *Organizational metrics:* Headcount growth, employees per \$1bn AUM, employee breakdowns per function, per function and seniority, portfolio manager workloads (per account, psf, per GAV) acquisition officer workloads, asset manager workloads, outsourcing, average turnover, size and composition of executive committees and workloads and deal flows.
- *Financial metrics:* YOY financial performance, EBITDA (pre- and post-bonus) margins, bonus pools, revenue and expense breakdowns.

Defined Contribution Survey

Coming in October

Produced in collaboration with Defined Contribution Real Estate Council

This report will include:

- Capital raising volume and distribution strategies, enterprise metrics including staffing and organizational best practices, vehicle structuring and deep dives into product-specific metrics, such as

For more information, please visit www.nareim.org

SN: In 2016, we got our first WELL certification for residential rental units in Hollywood. It was the first of its kind in the world. We also started rolling out Fitwel the same year. Around the same time, I had a personal family issue that drove home the point of how poorly we were thinking about the externalities of buildings.

Currently 39% of my portfolio is certified under Fitwel, and we have earned the WELL Health-Safety Rating for Kilroy's entire directly managed portfolio. Early on in the pandemic we began working with Underwriters Laboratories and their pandemic response module, which is a lot of on-site air, water and germ testing, as well as looking at programs for janitorial engineering and operations. That documentation became the foundation of our WELL Health-Safety Rating submission.

JB: We are rolling out Fitwel across our portfolio. With our investments in healthcare and education, most notably senior and student living, being able to have a third-party healthy building stamp of approval completes the story of how we not only say how important well-being is for our residents and tenants, but can prove we are taking action. This proof comes not simply from a plaque on the wall, but in how we design and operate our buildings. Also, as a member of the Well Living Lab alliance, we will be incorporating research from their studies on how buildings impact occupant health and even aging into our operations.

Rachel, what are you seeing in terms of managers seeking certifications?

RH: With Covid-19, we're seeing sectors that have never participated in WELL nor participated in green building certification programs, signing up in droves. We are about to register 67 million square feet of real estate in multifamily residential. That's a market that's been

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challenging to shift at scale, both for green and health-focused certifications.

When the pandemic hit, there was a brief pause in our business and then all of a sudden we were registering on average two million square feet of real estate every day. I think it goes back to that notion that this is no longer a “nice to have” but a “must have,” whether you believe it's because of ROI, ESG or differentiation. Something shifted across sectors. We're seeing all kinds of assets registering, from schools to entertainment venues, multifamily homes and hospitality.

What's been really exciting is that many of those companies are signing up their entire portfolios at once, including new buildings and existing assets across the entire portfolio. The pandemic has made clear that health and well-being is material to a business's bottom line.

BROADENING THE TENT

As we look to health and well-being, how do we broaden the number of investment managers and owners of commercial real estate involved? What do we need to do?

SN: I think we can lead by example and we need to get others excited. What I love about ESG is we're not competing in this. We have to win in this together, globally. We have to get more people wanting to do this.

I think well-being struggles because it is so many things. How do I do well-being? Is it air quality or is it open stairwells? Do I need to start caring about legionella or is it light? It's very confusing right now, whereas I think environmentally speaking, it's easier to ask for.

I think we need to make it easy to put well-being in the lease; specifically, in the same way that tenants can specify in the lease that the temperature be kept at 72, plus or minus two, degrees. I also hope some positive change will come from the federal level with the new [Biden] administration.

LC: I believe all investment managers and owners want to be on the right side of change. Covid increased the focus on health initiatives and third-party well-being ratings. If these ratings become a new standard demanded from the market, more investors and owners will go through WELL or Fitwel. Buildings that do not meet market expectations could be viewed less favorably and that could impact investment returns.

RH: We've launched a consumer awareness campaign around the WELL Health-Safety Rating. This is part of our effort to broaden the tent. We know that there needs to be a trickle up effect; prospective home buyers and tenants are beginning to ask for assurances that their health and safety have been prioritized. We have engaged a number of celebrity ambassadors and are running ads across TV, digital and print for a number of months. We're encouraging everyone to look for the seal so we can all get back to business with confidence.

JB: We recently entered into a first-of-its-kind partnership with the Center for Active Design that will implement Fitwel certification across more than 500 student housing, senior housing, medical office and life sciences properties. The goal is to create a powerful foundation from which Harrison Street and CfAD intend to bring about broader market transformation at a time when health and well-being are being prioritized more than ever.

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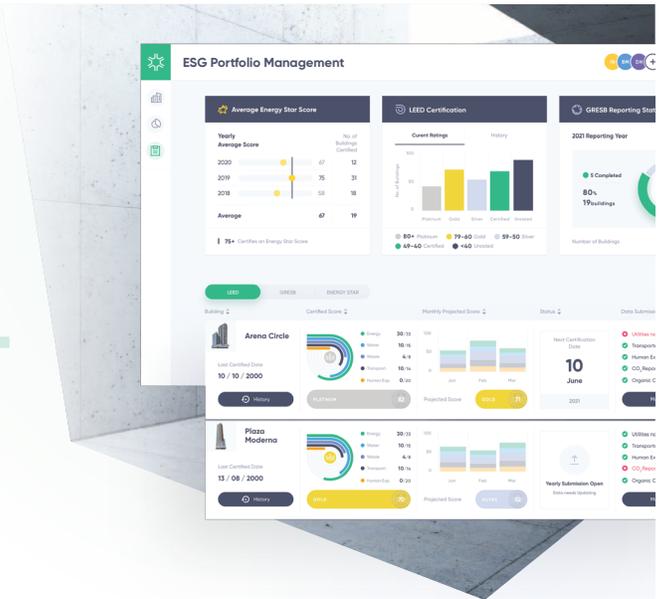
Specifically, from a property owner's perspective, it is incumbent on a property owner to be very transparent with how healthy the building is and to always be thinking about the experience of your occupants. For example, when someone walks in the door, are they greeted with a sign broadcasting the air quality of the building? If the sign is green, it's good, and if for any reason it weren't green, assure building occupants there is an emergency preparedness plan to address it. Both investors and occupants are already demanding and expecting more transparency in how sustainable a building is. ♦



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TRUSTED BELIEVERS



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