

PERE

Sustainable Investing

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**How is the sector
measuring up on ESG?**



A picture of health

*In the midst of a pandemic, wellness is a concept that has gained traction in real estate circles. Our panel of experts addresses industry moves to create healthier workplaces. By **Stuart Watson***

Health and wellness in the workplace has already garnered increased attention among investors in recent years, but covid-19 has thrown that process into overdrive, argues Joanna Frank, president and CEO of the Center for Active Design, operator of the Fitwel building certification system.

PERE listens in while Hakon Mattson, director of sustainability at leading US healthcare company Anthem, and Jessica Long, head of sustainability for the Americas at investment manager Nuveen Real Estate, join her in discussing how the topic will shape the future of real estate investing.

Wellbeing's importance to the built environment

Joanna Frank: Even before covid-19, there was an appetite in the real estate market for healthy buildings. That was driven by two main dynamics. First, employee demand for health-promoting workplaces was rising, with three quarters of millennials considering this a priority. As such, employers began to recognize the importance of health and wellness initiatives in attracting and retaining talent. Meanwhile, investors were beginning to place a heavier emphasis on ESG when making capital allocation decisions, influencing an increasing number of investment

managers to implement these types of strategies. Fitwel is only three years old, but last year take-up of the certification increased by 82 percent and this year we're on track for growth of 136 percent.

Jessica Long: As an investment manager, we're focused on the potential for ESG factors to impact financial returns. For some time, they have offered the opportunity to attract new customers, and to retain existing tenants and their employees. You can't argue with the data around how health and wellbeing improves productivity and employee satisfaction, so you would be remiss to not do something with that information.

Hakon Mattson: As a health benefits company, health and wellbeing outcomes are one of the most material ESG factors for our organization. In recent years, there's been more of a focus on how that is affected by the built environment and the workplace. We started out seeking to create workplaces that would do less harm to the environment, then we began to look at how to do no harm, and finally how we could create something that's actually regenerative to the environment while improving the health impacts of the occupants of that space. Our mission of 'improving lives and communities' acts as our guide. That includes our associates, as well as the people who live and

work in the neighborhoods in which we operate.

The pandemic as catalyst

JF: Because of covid, health has gone from a 'nice to have' to an essential part of the conversation. If you're a potential tenant walking into an office building, your first question may well be about the air circulation. That has massive ramifications for real estate. It completely reorders the priorities for occupational and investment decisions. Usually, there isn't a direct connection between people working within the buildings and the people investing in the portfolio. But those two things have become directly connected as a result of covid. Since the pandemic, we've seen a record number of projects submitted for certification.

JL: Communication with tenants has become essential as part of the covid response. The office manager making decisions about employee wellbeing is dependent on the landlord to be able to supply the information that will provide comfort to employees, and it is clear that everyone benefits from those actions.

HM: Even prior to covid, Anthem was carrying out proactive environmental quality checks and leveraging the Fitwel standard to ensure our buildings were using best practices. But when the pandemic hit, those priorities quickly

escalated to the top of the list. There's greater active communication between landlords, property managers and tenants about how to keep everyone safe. There's also greater emphasis on using evidence-based external frameworks like Fitwel.

JF: We created a new standalone certification specific to infectious respiratory diseases. The industry needed more than just guidance. It needed a third-party certification to show it's adhering to science-based best practices. Unlike our other certifications, which take a more holistic view of wellness,



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JOANNA FRANK
Center for Active Design

it sets minimum standards, so that you know that any building that gets that virus response module has met minimum criteria. That makes it easier to evaluate risk at a portfolio level across all of the properties that an investor owns, not just the flagship assets.

Wellness and employee productivity

JF: Analysis of the data we've gathered while Fitwel has been in operation show the highest-rated workplaces are outperforming their peers in addressing morbidity and absenteeism, and also in the mental health area, feelings of wellbeing. A lot of loss of work and of productivity is associated with chronic disease, so there's strong evidence to link health and business outcomes.

In the UK alone, 70 million work days, or 2.4 billion hours, are lost every year due to problems associated with mental health. In the US, if you compare the office settings with the worst light levels to the best, that accounts for 16 hours of sick leave per employee per year. People need sunshine, healthy food, regular exercise, and interaction with each other. That seems obvious, but it's evidence-based and it's impactful.

This may be new in the real estate sector, but Fitwel draws upon 5,600 peer reviewed public health studies conducted over 100 years. We're able to rank which strategies have a greater impact because the evidence base is so rich. It's much more about awareness than lack of knowledge, so there is the opportunity to make rapid progress.

Impact on investment performance

JL: The industry has been trying to prove for years that you get a higher rent for LEED-certificated buildings, but the truth is that if you try to make that connection the data will tell you what you want it to tell you. We're already charging what we think is the appropriate rent for the building, the

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HAKON MATTSON
Anthem



amenities, the features and the location. Sustainability and health and wellness create value for real estate assets by helping to retain tenants and lease up space faster. It's much cheaper to keep an existing tenant, so that's where the value lies, and that goes into the underwriting of the rental income. Also, when I'm looking at acquiring a building, do I have to underwrite capital improvements to add healthier features? It's not so much of a deal breaker



Looking to the future

What trends are set to shape the health and wellness conversation in property investing?

HM: Leveraging external frameworks like Fitwel will play an increasingly important role in assessing not only the environmental impacts of ESG, but also the social ones. Looking at long-term health risks, climate change is a critical consideration. Yes, we can introduce fresh air, and encourage healthy eating and active design, but we must look at what the built environment can do to mitigate climate change, or help tenants and occupiers adapt to it.

JL: We may be able to provide a comfortable environment in a building at the moment, but 10 years from now when the temperature is several degrees warmer and humidity is higher will we still be able to do that? Are we able to maintain indoor air quality when there are wildfires going on? As that becomes the norm, there will be new things that we need to do to differentiate buildings. Technology may hold part of the answer to that, as well as enabling occupants to use and interact with buildings differently as we return after the pandemic. Young people are more willing to share health data on fitness tracking apps, so there will be a lot more information available to analyze.

There's also a big opportunity in multifamily housing. People make decisions about their own health every day – what they eat, their activity levels – and multifamily landlords can make a connection between that and the built environment by showing how by renting in their building, tenants can improve their wellness.

JF: We only launched the Fitwel industrial scorecard a few months ago, but we see that sector coming on very quickly. It represents a vast amount of real estate that can have a really big impact on communities and employees. There's no reason why all of real estate should not be part of this conversation. Setting a standard is where you begin. That's the foundation for understanding that real estate impacts health, and the way in which it does so. To have real change in health you need to affect the whole population. That's just been demonstrated by the pandemic, which has shown we have vast disparities in the way our built environment affects health outcomes, and emphasized the need to address them.

as a matter of business planning. How am I going to create value by incorporating these things?

JF: If I were an investor offering healthier space, I'd be looking for access to preferential financing and also to an expanded investor pool. We have seen a tipping point happen over the past eight months where creating a healthy workplace has gone from an opportunity to differentiate your building to becoming a risk if you aren't doing it. It's too early to see firm evidence of that yet, but we feel we have probably seen a 10-year shift on that in only nine months.

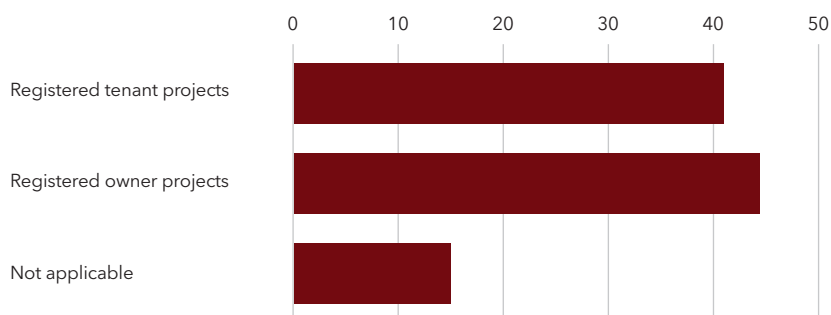
HM: We work with our brokers to identify assets that offer better health and wellness performance, so it definitely plays into our real estate decisions. As a tenant coming out of this pandemic, if Anthem is looking for new locations, we're going to have a hard set of standards for finding the space that we want to be in. Healthy space is not so much a differentiating factor as a must have. We recognize across our organization that so many factors shape health – beyond one's medical care – and this factors into our philosophy. If there's more inventory in the market as a result of people continuing to work from home, property owners that don't have health and wellness strategies in place will face a challenge with occupiers not renewing or signing leases.

JL: Our teams are working through checklists of factors to make sure that when people are ready to come back to the office, our buildings are ready. We can use the opportunity where buildings are vacant to go in and make changes so that we're ready to attract tenants. For example, we're looking at opportunities at our suburban locations to provide the amenities that workers downtown have come to expect in case we start to see the growth of hub-and-spoke office models. ■

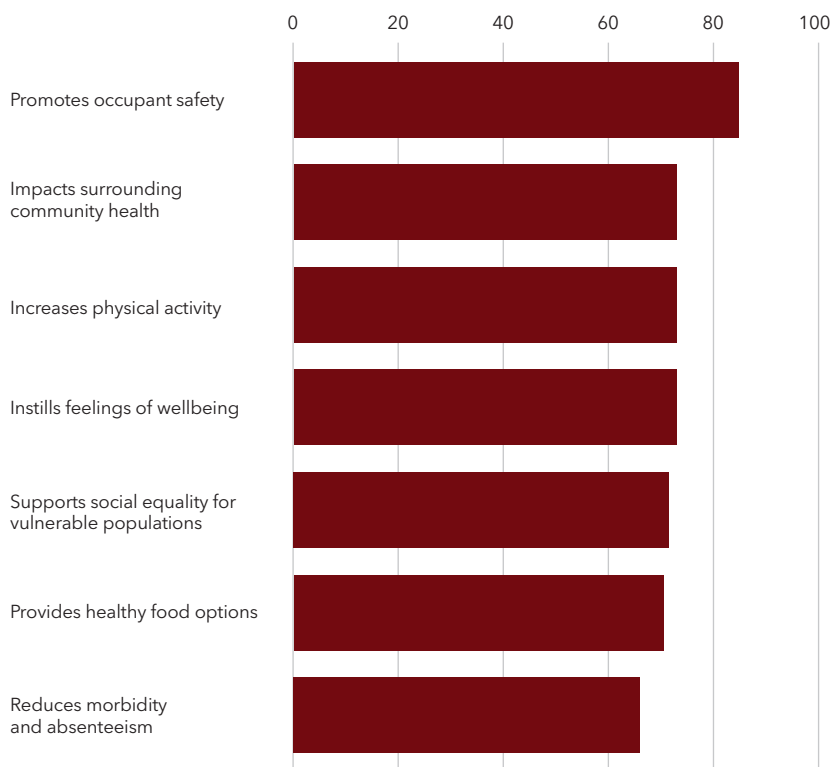
Vital statistics

Fitwel data show a global real estate sector increasingly eager to demonstrate its health and wellbeing credentials

Fitwel users registering workplace projects since it launched in 2017 have been almost equally divided between tenants and owners (%)



Average health impact score across real estate projects with Fitwel certification (%)



Source: Center for Active Design

1,966

Real estate projects registered with Fitwel over the past three years, up from the 343 in 2017 when the system launched

545

Number of registered projects that have received Fitwel certification (43 in 2017)

94%

Share of Fitwel-certified projects that are existing buildings; the other 6% are under construction

136%

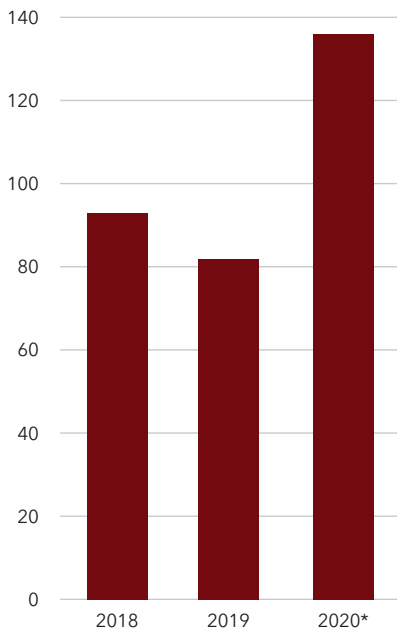
Increase in tenants registering workplace projects with Fitwel over the past 12 months, compared with 43% increase in owner registrations

549m_{sq ft}

Property registered with Fitwel

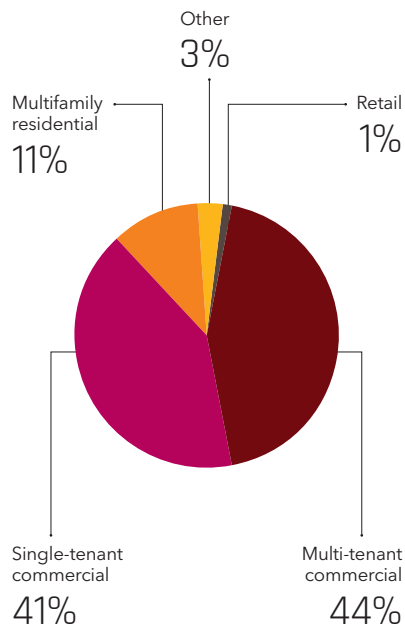
Analysis

Annual growth of Fitwel-certified projects 2017 to Q3 2020 (%)

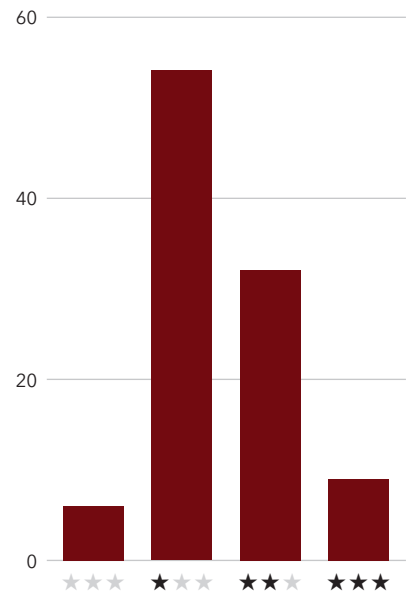


*Based on 77% growth as of Q3 2020 and extrapolated through Q4 2020

Multi-tenant commercial buildings have led the way in wellness certifications this year

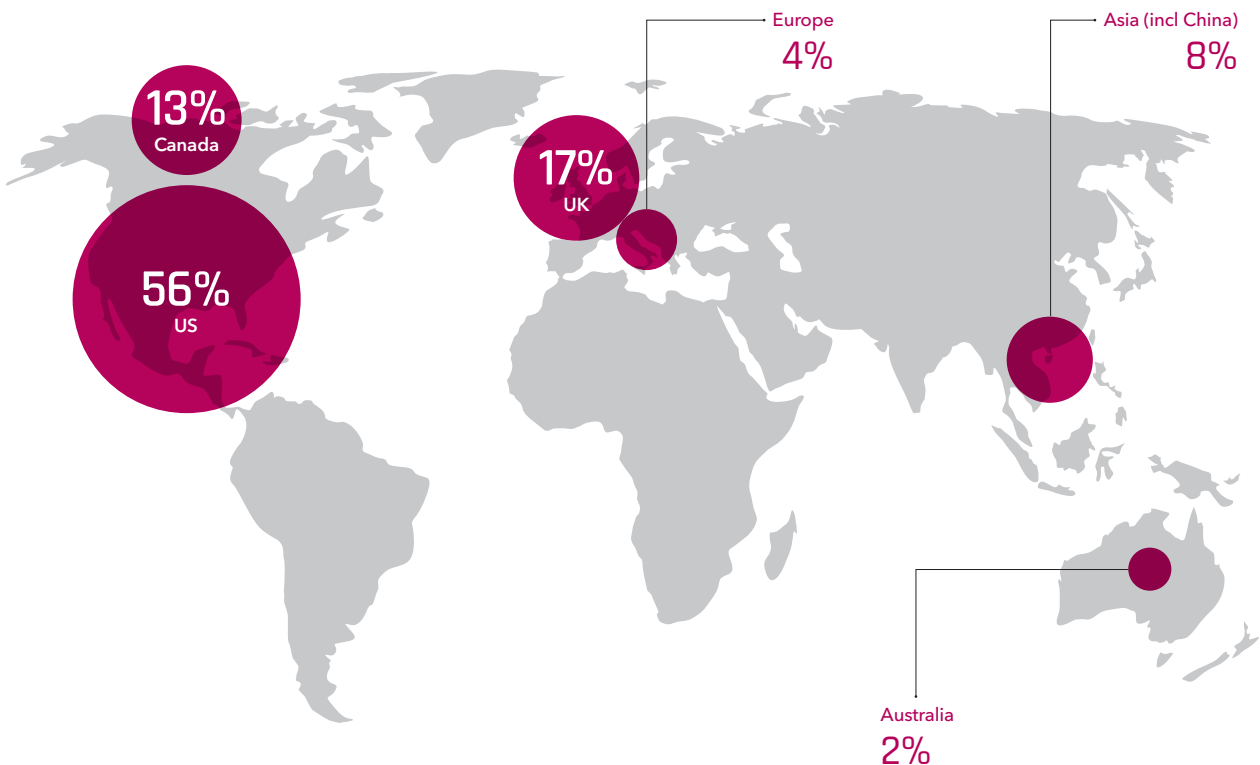


Room for improvement: only 9% of certified properties have received the highest 3-star rating since Fitwel launched in 2017 (%)



Note: projects must achieve a minimum of 90 points to achieve a rating (1 star = 90-104 points; 2 stars = 105-124 points; 3 stars = 125-144 points)

In 2020, US real estate has been most eager to tick the boxes in healthcare and wellbeing, netting a majority of certifications by region





2 Star Fitwel Rating
200 West Madison, Chicago, IL, United States
Photo courtesy of BentallGreenOak

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Fitwel, the global certification system translating public health research into **ESG solutions** for the real estate industry.

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