

Unleashing the power of the “S” in ESG



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The “E” in ESG is fairly well understood in terms of what environmental stewardship entails and how to measure it. Not only is it critical to improve operational efficiency of buildings to save on utility spend, but with the building sector being responsible for 40% of all emissions, there is a heightened focus on reducing the industry’s carbon footprint. From architects to developers to real estate investors, we have seen an array of environmental commitments coming out of the sector around such factors as:

- Net zero targets and other emissions reduction goals
- Electrification
- Renewable energy generation/procurement
- Physical and transition risk assessments; measures to hedge the economic costs of climate change

Although the industry’s efforts around “E” remain pertinent and meaningful, Harrison Street has set specific environmental goals, including a 2025 goal of 70% reduction in carbon emissions over its 2020 baseline. However, the “E” is only part of the story. For example, a net-zero, climate-resilient building is only an empty shell if it fails to consider the needs of its occupants. Climate change is multi-faceted and so too should be our ESG response. Being an investor, owner or operator of real estate should not focus solely on the physical building, but also the human beings that reside, work, or visit the asset, as well as the surrounding community. The question to be asked is: What is the social impact due to the existence of this building?

What is the “Social Impact” of a building?

Answering this question begins with defining social impact, along with identifying the stakeholders and

quantifying the impact. Any building investment will generate jobs, ranging from construction to operating jobs for a new asset, to maintaining employment following a change in ownership. These numbers are calculable and relatively easy to track.

But what about those social aspects that are not typically considered, or on the surface appear more difficult to measure, such as occupant physical and mental health, indoor environment quality, development of community spaces or even co-utilization of buildings?

For those investors whose aim is to implement a comprehensive ESG program, they must design and execute on an “S” initiative that aligns with their brand and beliefs, positively impacts the stakeholders, and results in an economic or financial gain. Admittedly, adapting buildings to the risks of climate change and to meet carbon reduction goals can at times be at odds with prioritizing occupant health. Energy efficiency strategies and building improvements (i.e. renovations) have the potential to negatively impact indoor air quality (IAQ). For example, greater efficiency may be achieved by reducing ventilation, but that comes at the expense of healthy indoor air or limiting energy usage during extreme temperatures, and impacts the comfort and safety level of the indoor thermal environment for building occupants.

Balancing competing interests

What is needed, then, is a balance of these competing interests. At Harrison Street, we have tried to address these conflicting goals by committing to pursue healthy building certification at our occupied properties. As a result, we have assets that have been deemed healthy by independent assessments, which include Indoor Air Quality (IAQ), but also community health, occupant safety, and physical and mental health. An MIT study of office buildings found that those with the certification can charge 4-7% more per square foot thus tying health and wellness to financial performance.

Much of the time, however, the “E” and the “S” are not at odds, and align quite well. For the asset classes we serve, such as senior living and student housing, the “S” is of utmost importance at the property level. Specific to these two groups, research has found that both these generations suffer the most from loneliness. We believe we are in a unique position to make a positive impact by cross pollinating between these two



Brightview Senior Housing in Marlton, NJ, USA

populations through a program called StudentCare. This initiative connects students living near senior housing properties to participate in both work and volunteer opportunities at the elder community. Offering a program that supports, encourages, and emphasizes intergenerational connections has proven to be beneficial to each segment’s mental health. There are also benefits to the properties. Having students fill open shifts in areas like dining, transportation, concierge, etc. helps lower overtime charges and recruiting costs for the senior living operators. For the student housing operators, they can offer a differentiated opportunity for both job and volunteer positions for their residents. The overall impact of the program can be measured through participant satisfaction surveys.

There are also times when social initiatives do not have to exist independently from environmental initiatives, but instead complement one another. An example here is a program at some of our senior living communities called “Belmont Blooms”. This program provides residents with opportunities to positively contribute to the environment, while also giving them a sense of purpose and socialization, important wellness components. The initiative’s goal is to demonstrate that older adults can stay engaged in major world concerns like climate change.

The program identified local areas of impact like plastic contamination, ocean pollution, micro-forest opportunities, endangered pollinators, and water conservation. As part of the program, residents across the participating communities start and nurture gardens whose organic herbs and produce are used in their food service operations to follow a farm to table initiative. Many of

the communities have bee- and butterfly-friendly gardens to support pollination. Recycling and composting initiatives to reduce waste are also a component of the program. Residents have made pledges to continue this activism by staying informed in local issues through discussions and fundraising.

Climate change doesn’t limit itself to buildings, it also impacts people, and it is deeply intertwined with global patterns of inequality. The most vulnerable populations will often disproportionately feel effects of climate change through extreme events, health effects, food, water, and livelihood security, migration and forced displacement, loss of cultural identity, and other related risks. A comprehensive social initiative must balance the opportunities with the risks. Our goal is to support the wellbeing of building occupants and the surrounding community and build resilience against climate-change-induced social risks.

While we have made progress in quantifying the “S” for select programs, our work is not complete. This year’s focus will be intensified on how to define, prioritize, measure, and analyze the impact of social efforts, and to validate our efforts by bringing forth a higher performing, differentiated product that enhances the lives of those we serve. We provide on a quarterly a proprietary impact dashboard to our investors summarizing ESG initiatives, including those on the “S”. We look forward to sharing the results of our work and encourage others to collaborate with us as we further unleash the power of “S”.

