What Is the *S* in ESG?
A Guide for Real Estate Investors

Presented by the

PREA Social Impact Committee

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Table of Contents

1. Overview

Introduction

Real estate and society are inextricably intertwined. Buildings provide the places where we live, work, and play; shape our perspectives and impact our health; and offer the places through which the goods and services we buy are exchanged and the data we download flows. Given the centrality of the built environment to how society functions, it stands to reason that to be a successful long-term *investment*, real estate should reflect the priorities of the society in which it is situated. Increasingly, those priorities include environmental, social, and governance (ESG) issues. There is increasing awareness within real estate that ESG factors affect investment performance and that a greater alignment of interests across all stakeholders—including capital providers, owners/operators, occupants, suppliers, neighbors, local industry, the environment, and others—can enhance profitability, drive sustainability, and deliver meaningful outcomes for those groups across the investment life cycle.

Within real estate investing, much of the initial ESG focus has been on the "*E*" (environmental considerations), and the "*S*" (for example, how an asset interacts with and is affected by communities and stakeholders) has received far less attention, largely because of a lack of market understanding, definitional clarity, and barriers to straightforward measurement and tracking.

The purpose of this guide is to aid real estate investors and investment managers by providing a high-level road map to addressing social factors within real estate investments. The guide seeks to provide:

- Understanding of which social factors may be most critical to consider and how they may affect real estate investments
- Constructive guidance for integrating a range of social factors into the investment management process, across the investment life cycle
- Links to some of the existing value-add resources that have emerged in the space

The landscape surrounding social factors, and their treatment broadly and within the real estate industry, is evolving constantly, with considerable political and social attention in recent months and years. Market participants should give thought to these issues today to stay current and plan ahead.

The 2023 PREA Investment Intentions Survey reported that 81% of institutional investors globally considered a fund's involvement in "environmentally and socially responsible investments" before investing. Different organizations have different (and equally valid) priorities within the arena of social impact, and given its importance to capital sources, all investment managers should carefully consider social factors and identify methods to track strategy implementation, regardless of the ultimate bespoke social strategy they pursue.

Introduction

Investors and investment managers should decide their own approaches and priorities, consistent with their mission and stakeholders' priorities. Although decisions on how to address social factors within real estate investment activities and which social factors to address are up to specific organizations, we believe that simply ignoring the *S* of ESG could ultimately impede investment performance, potentially reducing returns and/or increasing risk. Many organizations are only beginning to think about incorporating social factors into investments or are in the early stages of developing a strategy. This guide does not endorse any particular approach, company, consultant, or resource—rather, we hope it can expedite understanding of the issues involved, help facilitate the development process, and aid organizations in developing their own, unique strategies.

Pension funds have an especially important role to play in the process. They are entrusted with investing financial assets on behalf of past, present, and future retirees who have served as teachers, transportation workers, police, fire and health-care professionals, and in many other jobs. The participants expect to have a secure financial future in a sustainable world. This "sustainability" may include environmental concerns; it may also include social concerns. Each fund should decide how to articulate these factors in communicating with participants and with the investment industry. A goal of this document is to help all stakeholders understand the range of possible social factors that can be considered and how they might be integrated into the investment process.

Social considerations are complex. A framework helps more efficiently direct the scarce resources of attention and capital and can help create defined, measurable key performance indicators, bringing amorphous social benefits into the concrete. This document seeks to help investors and investment managers focus attention on the issues they can reasonably tackle as they interact with employees, tenants, occupants, neighbors, and other stakeholders. Businesses and investors are not experts in all society's problems and cannot be expected to solve all its issues. However, mitigating risks while capitalizing on opportunities to improve asset performance through attention to community well-being is not only broadly responsible but also financially prudent.

–PREA Social Impact Committee

What Is ESG?

Although it has become an almost ubiquitous term in capital markets, ESG is still often misunderstood.

The abbreviation covers three areas (*E, S,* and *G*), each complex and distinct although interrelated. All three can be important to the long-term success of investment strategies and historically were not prioritized in traditional investment analysis.

Often thought of as risk filters, ESG strategies can also be proactive, seeking to positively impact both social and/or environmental issues as well as investment performance.

The three areas are often collapsed under the single umbrella term ESG, but considering each area separately is helpful, given the specific issues and complexities they cover.

Environmental: (1) How the investment may affect the environment through things such as greenhouse gas emissions, waste, water usage, and impact on biodiversity; and (2) how the investment may be affected by the environment via things such as climate events.

Social: (1) How the investment may affect society through its impact on communities and other stakeholders (e.g., tenants, employees, suppliers, nearby businesses and institutions); and (2) how investment performance may be impacted by social factors, such as the strength of the surrounding community, demand for specific types of assets with socially beneficial characteristics, or social shifts, such as changing consumer preferences.

Governance: The policies, controls, and practices determining how a firm, an organization, or an investment vehicle is controlled and operated and how decisions are made. As per the UN Principles for Responsible Investment, governance includes executive pay, corporate purpose, tax fairness, anti-corruption, cybersecurity, whistleblowing, and more.

What Is ESG?

At the margin, the lines distinguishing the three areas of ESG can be fuzzy.

<u>Examples</u>:

- Diversity commonly falls under social, but diversity at the board of directors or senior management level can also be classified under governance.
- Properties with high walkability and/or a transit orientation provide benefits to health, wellness, and the surrounding community and fall under social but also have environmental benefits.
- Healthy buildings can drive both social and environmental outcomes.
- Business ethics and good corporate citizenship can be viewed as an outcome of good governance or as a goal of the social component of ESG.
- Part of good governance is the oversight of social and environmental issues in investments, so *G* overlaps with *S* and *E*.

It is important to realize that individuals or firms can reasonably disagree about where under the overall ESG banner certain issues fall.

The *S* of ESG

This guide focuses solely on the social aspect of ESG, i.e., the *S* of ESG, specifically with respect to real estate investing. It explores and provides answers to the following questions:

- **What are social factors in real estate investment?**
- **How might they impact investment performance?**
- **How can industry participants establish strategies and programs to address social factors in their investment decision-making and, more generally, within their firms to mitigate risks and/or improve long-term performance?**

What Is Social Value in Real Estate?

"Social value is the value that stakeholders experience through changes in their lives."
–The Principles of Social Value, Social Value International

In Appendix I, we provide examples of specific issues real estate investors can target to create social value and how they align with a pertinent third-party framework.

At a high level, it can be useful to think of **three main categories** of issues:

1. **Community impact**
2. **Health and wellness**
3. **Human capital, including diversity, equity, and inclusion**

Within each category, there are actions at the **property, firm, and industry levels** that can create social value.

Other categorizations of social issues exist, and investors are encouraged to look to other sources in developing their own lens on social issues. Useful resources include:

UN Sustainable Development Goals

ULI Social Equity Hub

UN Principles for Responsible Investment—Real Estate

Nareit's Practical Reference for ESG Implementation and Reporting

IRIS+ Thematic Taxonomy

Look at the Strategy, Not the Terminology

- The nomenclature and terminology surrounding ESG, and social considerations especially, lack universally accepted definitions, may change over time, often use specialized terms and acronyms, and can therefore be difficult to rely on as a universally understood shorthand.*
- Instead of terminology, investors and investment managers may want to focus on **principles, actions, and outcomes** when evaluating a particular strategy or investment.

> For example, affordable, essential, attainable, and workforce housing may represent the same investment strategy or may mean very different things, depending on the entity in question. An investor conducting due diligence on an affordable housing opportunity should rely less on the words used to name the strategy and more on questions such as: Is the strategy creating or maintaining affordable housing? How does it define "affordable"? How does the investment opportunity support long-term housing stability for its tenants? How does it track social outcomes? Are the housing and associated amenities accessible to the target population?

- Relying on the name or title of an investment strategy is insufficient to determine if that strategy matches an investor's social goals. Investors must first understand their own priorities and then conduct careful due diligence of the strategy's target outcomes and business plan to determine alignment.

* For example, one driving factor behind the European Union's adoption of the Sustainable Finance Disclosure Regulation (SFDR) was a need for greater definitional clarity and a desire to reserve the word *sustainable* for specific activities.

Intentionality

- A key aspect of any approach to considering investments with socially positive attributes is **intentionality**.
    - Does the firm have the direct intention of creating social good through its investment decisions?

- Consideration of intentionality is important for investors conducting due diligence on managers to avoid "**social washing**" or "**blue washing**," i.e., firms promoting themselves as more socially conscious than they actually are.

Due Diligence: Intentionality

Intent with regard to social factors is key in determining whether an investor or investment manager can legitimately claim to be acting for the good of society. Actions already required by legislation (e.g., access for disabled persons in a building) should not be claimed as social impact of an investment. Outcomes that are incidental by-products of an investment and not the specifically intended outcome should also not be claimed as social impact. For example, normal employment created in construction is not considered a form of social impact because that employment would have been created regardless of the intent of the investor. On the other hand, if the investor specifically and intentionally directs employment to the local community or to specific groups, that may be a social impact of the project. Additionally, ongoing investments claiming social impact should have an ongoing impact, not just at a specific point in time. For example, residential investments that are currently deemed affordable but that pursue high rent growth should likely not be considered investments that address social issues. For a group to claim it is addressing social issues, the investor or manager must have an approach that intentionally targets one or more social considerations. However, as discussed later, intentionally targeting a social issue does not mean that risk-return performance must be sacrificed.

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Intentionality

- Intentionality should also include the concept of "**additionality**" (or "**contribution**")—the extent to which positive outcomes would not have occurred without the investment/action; i.e., does this initiative specifically drive forward change that would not otherwise occur?

- For example:
  - Making properties accessible to disabled individuals but only to the extent required by regulation is not additional and therefore does not reflect intentionality. Going beyond regulatory requirements indicates additionality.
  - Offering services or amenities to space users to which they already have easy access or for which they have no need does not create additionality.

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Intentionality

- Another aspect of intentionality is consideration of the extent to which an investment or action may benefit one segment of society at the expense of another, i.e., taking careful effort to **minimize the investment's unintended consequences**.

- For example:
  - Creating a more vibrant local community by offering new amenities, improving streetscapes, and/or raising rents to attract new tenants with the effect that existing residents are priced out
  - Increasing traffic and noise because of new development that adversely affects neighbors and abutters, without proper communication with those groups

Intentionality

- Optimally, social benefits will be created with no ill effect on any other group. In reality, however, there are often trade-offs to be managed and judgment calls to be made: Does a significant positive net benefit offset minor inconveniences to some? Does creating more affordable housing offset having to push against NIMBYism? How does someone judge how important an issue is to one group versus another group?
  - Although many different groups of stakeholders can be the target of socially aware investing, groups that are judged vulnerable or disadvantaged in some way should be given deeper consideration when balancing trade-offs.

- These are difficult questions, and answers will vary. However, **intentionality in socially aware investments requires investors to thoughtfully consider any side effects a particular strategy may have on other stakeholders and, when possible, work with those groups to come up with solutions acceptable to all**.

- Designing perfect solutions may not always be possible when competing wants conflict. But reasonable consideration of trade-offs, and reasonable attempts to alleviate them when practical, is possible in most cases.

Why Should Investors Care About *S*?

- **All real estate assets are, in some way, affected by social factors.**
  - Properties are more valuable if surrounded by vibrant communities, with healthy and financially stable occupants and responding to the needs of society.

- Two common misconceptions that often prevent investors from integrating consideration of social factors into decision-making are:

Misconception 1: Social factors should be considered only by investors self-described as "impact investors."

Misconception 2: Impact investments must sacrifice investment performance to achieve social or environmental goals.

S is Not Just for Impact Investors

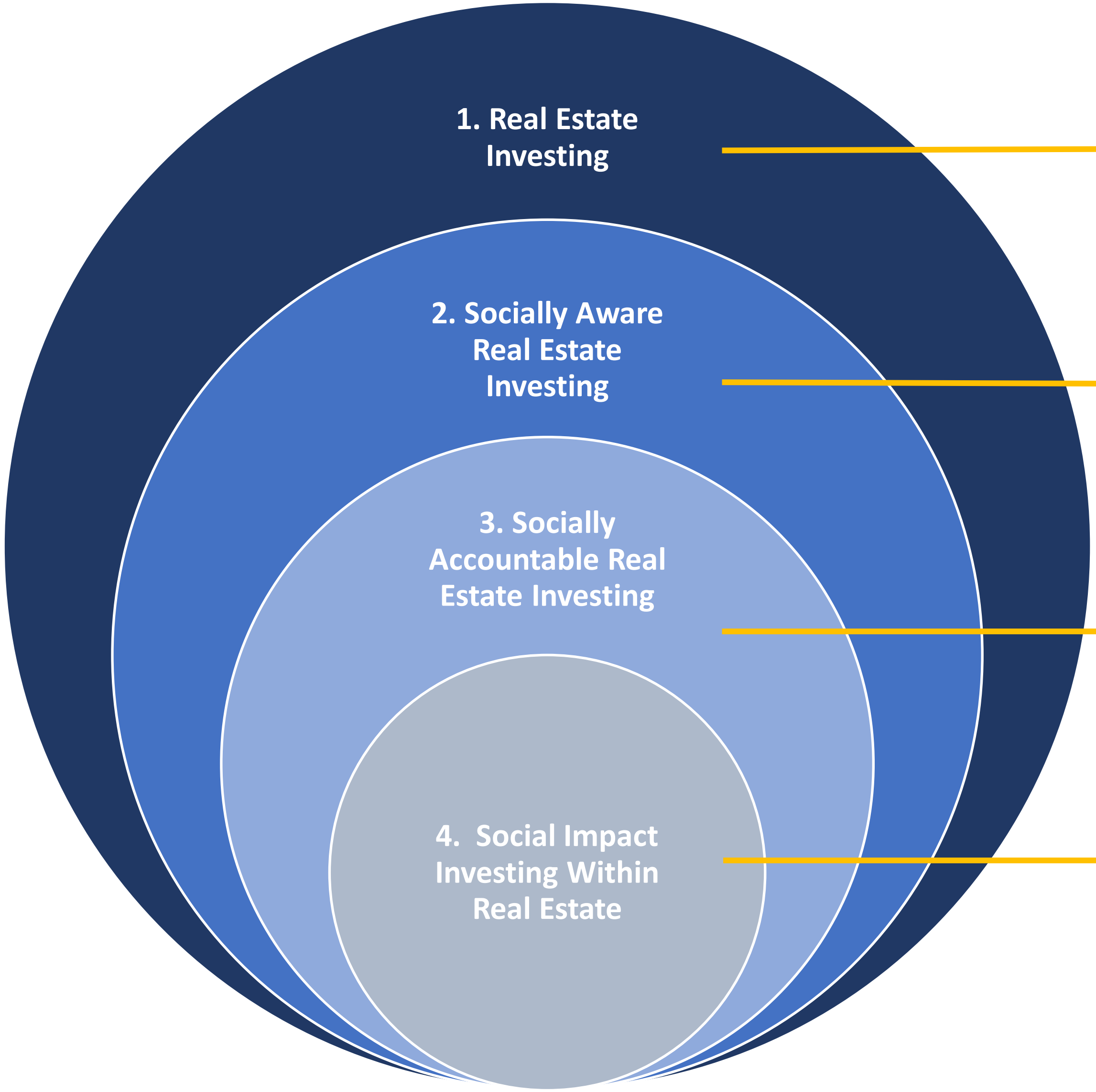
Those describing themselves as impact investors have a dual mandate—to both generate investment performance and create some type of social or environmental benefit.

Impact Investments (noun)

"Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." –Global Impact Investing Network

But consideration of, and the importance of, social factors in real estate investing goes beyond just those investors who see themselves as impact investors.

Categories of Investors Incorporating *S*



Some investors may actively consider social factors (in particular, risk factors) in an investment strategy; some may not. All have influence on the community where the investment is situated.

Investors consider an investment's potential effect on society, in addition to social risk factors, as part of investment decision-making. Community impacts may or may not be formally tracked.

Investors evaluate social factors affecting and affected by the investment as part of the investment approach, with associated metrics tracked and reviewed regularly.

Positive social impact integrated with financial performance are the primary investment theses. Social metrics, targets, and goals are established at the outset and are tracked and reported throughout the investment life cycle.

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Categories of Investors Incorporating *S*

- The largest circle in the schematic on the previous slide represents the universe of real estate investors, with the inner circles being subsets.
  - Social factors affect all investments (e.g., vibrant communities support property values), although some may not explicitly recognize this.
  - Some investors may recognize the links between society and their investments but may not classify these as “social considerations” and may not consider any link to local communities beyond the direct effect on asset values and cash flows.

- Impact investors, the smallest circle, are a subset of both the broader universe of real estate investors and those incorporating social considerations into their investments.

- **Investors incorporating social considerations into investment decisions go beyond impact investors.**
  - They are represented by the middle two circles of the schematic, into which many investors likely fall.
  - Socially aware and socially accountable investors are distinguished by whether they track, communicate, and evaluate the social impacts of an investment along with the financial performance.

Categories of Investors Incorporating *S*

- **Socially aware (and its subset, socially accountable) investments are those that provide at-market, risk-adjusted performance as the primary goal but that also provide benefits to society.**

- Societal benefits:

  1. May be central to the investment thesis (i.e., returns are generated because of the social benefits)
  2. May be secondary to the central investment thesis but still support attractive risk-return features for the investment (i.e., incorporating social benefits improves the risk-return profile of a “traditional” property investment)
  3. May not be directly related to the central investment thesis but also do not detract from risk-adjusted performance (i.e., risk-adjusted performance is unaffected despite the provision of positive social outcomes)

- **Details vary, but in all cases except impact investors, the ultimate focus of socially aware investing remains financial performance.**

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Social Awareness Does Not Mean Sacrificed Performance

- Integrating social factors into investment decision-making can be done without affecting investment performance. In many instances, consideration of socially responsible factors can improve the performance of an investment or a firm.*
- Most social impact investors would not consider sacrificing investment performance to achieve social objectives and would call below-market, risk-adjusted yield "concessionary investing."†

*A 2023 survey by the Global Impact Investing Network finds that **74% of impact investors target market-rate financial performance** on a risk-adjusted basis, and **20% report exceeding their financial expectations**.*

- Real estate investments with socially positive attributes can provide performance advantages to investors in a number of ways, including **risk mitigation, value creation,** and **accountability and compliance**.

* A growing body of academic research examines this in various sectors of the capital markets. Most of these studies consider ESG factors overall rather than only social factors, but the evidence is still intriguing. See G. Friede, T. Busch, and A. Bassen, "ESG and Financial Performance: Aggregated Evidence from More Than 2000 Empirical Studies," *Journal of Sustainable Finance & Investment*, 2015, Vol. 5, No. 4, pp. 210–233. The authors report that 90% of studies find a non-negative or positive relationship between ESG and corporate financial performance and that the impact is stable over time.

† A growing contingent of impact investors emphasizes the terms "impact-first investing" and "catalytic capital" to refer to investments that prioritize impact performance before financial returns. This approach is not the emphasis of this guide. For more, see ImpactAlpha's piece *Embracing the Spectrum: Investors of Catalytic Capital Seek Outperformance—on Impact.*

Advantages of Socially Aware Investing

Risk Mitigation

- For many investors, risk mitigation is the bedrock advantage of integrating social awareness into their investment strategy.

- The growing area of ESG ratings, conducted by firms such as MSCI, Moody's, Sustainalytics, S&P Global, and Refinitiv, concentrates on numerically quantifying risks to firms or investors from specific ESG factors. As such, the emphasis in these rating methodologies tends to be on avoiding bad outcomes, specifically minimizing business, reputational, and regulatory risk.

- As industry norms and definitions for the *S* of ESG are still in flux, many existing risk management efforts regarding social factors tend to follow the ESG ratings approach and concentrate on avoiding bad outcomes (i.e., "do no harm") rather than on proactively seeking good social outcomes.

Advantages of Socially Aware Investing

Risk Mitigation (Continued)

- For example, the European Sustainable Finance Disclosure Regulation defines a *sustainable investment* as "an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices."

    - Minimum requirements to avoid social harm come from the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and concentrate on protection of freedom of association, fair compensation, safe working conditions, prevention of forced or child labor, and related issues.

- **Hence, at its most basic level, risk mitigation around social factors includes a strong emphasis on basic issues such as human rights.**

- We recognize the importance of avoiding bad social outcomes but assume that PREA members using this document already support basic elements, such as protection of basic human rights, as a matter of course.

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Advantages of Socially Aware Investing

Risk Mitigation (Continued)

Human Rights

A fund manager's intention to avoid human rights violations is sometimes included in offering documents. In some regions (such as the US and EU), financial authorities strongly suggest these testimonies as part of either the "risk factors" or "legal considerations" section of a private placement memorandum. These attestations are certainly part of the rising emphasis on social considerations that all regulated investment entities must adhere to. However, the avoidance of illegal activities is not an incredibly high standard for socially conscious investment policies. The highest standard includes a strong review of compliance across all parts of the "supply chain," driving vendors, partners, consultants, contractors, and other service providers to also uphold certain social principles (e.g., gender pay equity, safe working conditions, and diverse workforce) and abide by the law. This includes a thorough review at all stages of the investment process and all parties these entities do business with. These commitments to vendor screening have undoubtedly had a positive impact on the behavior of fund managers, but credit also goes to the laws that countries have put in place to keep human rights violations (such as child labor, unsafe work conditions, human trafficking, and money laundering) out of the investment process.

Advantages of Socially Aware Investing

Risk Mitigation (Continued)

Beyond simply avoiding doing social harm, investments that proactively seek to create social good can also have risk mitigation benefits:

1. Failing to incorporate socially sustainable practices at either the firm or the investment level exposes the entity to obsolescence and reputational risk and results in lowered resilience.
    - At the property level, falling behind the curve on social issues can destroy value as tenants move to properties viewed as having more socially positive attributes.
    - At a firm or investment vehicle level, a lack of social focus can lead to loss of talent and impinge on the ability to raise capital.
    - For many investment firms, reputation is a key driver of firm value. Ultimately, a lack of social sustainability could negatively affect that value.

2. Many institutional investors worry about headline risk, but properly constructed social initiatives within real estate investments can engender goodwill (a halo effect) among beneficiaries, regulators, other stakeholders, and society in general.

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Advantages of Socially Aware Investing

Value Creation

1. In some strategies, provision of a social good is the driver of the investment thesis.
    - Continuing with the example of an affordable housing strategy: A supply-demand imbalance has created unmet demand for attainable housing. Strategies to help meet this demand can generate attractive risk-adjusted returns for investors.*

2. Other strategies that provide socially beneficial properties for which there is unmet demand can also create value for investors. In all cases, property value is highly dependent on the strength of the surrounding community. Supporting local communities often can help retain and increase property value.

* For research on the risk-return characteristics of affordable housing, see M. Roberts and J. Wegmann, "ESG Investing: Moderate-Income Rental Housing as a Viable Real Estate Asset Class," *Journal of Portfolio Management,* 2023 (PREA-sponsored special real estate issue), pp. 103–118.
For further discussion of affordable housing investment, see PREA's June 2022 webinar on the topic.

Advantages of Socially Aware Investing

Value Creation (Continued)

3. Socially positive attributes of properties can drive value creation by attracting tenants, thereby supporting strong pricing, reducing vacancies, and increasing value.
   - A study from MIT found that office properties certified as healthy generated effective rents that were 4.4% higher.*

4. Various forms of government subsidies or support may be available for projects creating social good, increasing the financial attractiveness of a project.

5. Building social capital and a positive reputation within a community can make implementing value-enhancing strategies easier.

6. At an organizational level, decisions to incorporate social initiatives into investments, reinforced by an inclusive corporate culture, can help retain talent, incentivize employees, and ultimately increase firm value.†

* N. Sadikan, I. Turna, and A. Chegut, "The Financial Impact of Healthy Buildings: Rental Prices and Market Dynamics in Commercial Office," 2021, MIT Center for Real Estate.

† For evidence that employee satisfaction is linked to firm value, see A. Edmans, "Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices," *Journal of Financial Economics*, 2011, Vol. 101, No. 3, pp. 621–640.

Advantages of Socially Aware Investing

Accountability and Compliance

1. Ensuring that properties protect the health and well-being of users and that a firm's employees are treated fairly, for example, helps avoid legal issues in those areas.

2. Social issues will grow in importance as the industry moves toward the adoption of sustainability standards and disclosure requirements (which will likely need to accommodate multiple stakeholders with differing objectives).

3. Regulatory requirements around ESG disclosures, including social issues, are in place or imminent in many jurisdictions globally and are likely to become more widespread over time.

ESG and the SEC

In September 2023, the Securities and Exchange Commission (SEC) made final amendments to the Investment Company Act "Names Rule" to address greenwashing and potential misalignment between a fund's marketed name and its actual activities.

Though more rulemaking may be on the horizon directing internal practices or requiring specific forms of reporting, this is a strong signal of the relevance of ESG investing and regulators' commitment to creating more legitimacy and transparency across the industry.

2. Creating a Framework for Socially Aware Investing

Creating a Framework

- Investors are familiar with the concept that an investment policy statement and a strategic asset allocation are necessary before beginning to make decisions about specific investments.

- In the same way, developing a general framework for thinking about social factor integration in investments is advisable before moving to the details of implementation.

- A general framework will help an organization concentrate resources in high-value places and provide direction on implementation.

Creating a Framework

- Any organization is likely to have a unique approach to social issues.
  - Given the variety of issues that fall under the umbrella of social factors and the fact that the area is still emerging within real estate investment, consideration of social attributes is necessarily a bespoke endeavor.

- However, though goals, implementation, and specific investments may be unique, general frameworks for incorporating social awareness in real estate investments share commonalities.

- Investors are strongly encouraged to **make use of existing resources**, including those listed in this guide, in developing their framework and **engage with their peers** to share best practices and experiences.
  - Although the details will be bespoke, relying on existing expertise and industry insights will ease and speed the framework development process and help with comparability across investors and investment managers.

Measuring Progress

- Given the diversity of issues that fall under the *S* of ESG, metrics to measure success may be more diverse and sometimes less quantitative than for the *E*.
    - Although data collection for environmental issues remains an important and difficult obstacle in real estate, there is general agreement on the types of quantifiable metrics that are important, such as energy usage and greenhouse gas emissions.
    - Regulated investments, such as public welfare investments or those under the Community Reinvestment Act, have defined social criteria, making success easier to measure and identify. Outside these programs, defining success can be difficult within the social sphere.

- Nevertheless, a framework for socially aware investing must give thought to how progress will be measured.
    - What would success look like? Where would it be observed?

- **Intentionality and additionality should be paired with a systematic review of whether the intentions are, in fact, being achieved.**

- As described in Section 3 of this report, on implementation, valid and reliable metrics are critical to determining if success has been achieved. That section provides an overview of helpful resources for developing metrics.

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Resources

- This report does not espouse any specific framework. As noted, the details of a framework are likely to be most useful when they are bespoke and purposeful to an investor.
- However, a plethora of resources and examples exist that investors may find useful before developing their own frameworks.
- First and foremost, sources to look at include:

SUSTAINABLE DEVELOPMENT GOALS

UN Sustainable Development Goals (UNSDGs)

- This set of 17 goals, each with multiple targets and indicators, is designed as a blueprint to achieve sustainable global prosperity within the coming decades.
- ESG and impact initiatives commonly link their efforts to particular goals from the 17 UNSDGs. They are often a cornerstone for design of social impact programs.

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Resources

From the UN, Beyond the SDGs

Principles for Responsible Investing (PRI)

- Drafted by the UN in conjunction with a group of some of the largest institutional investors at the time, the PRI exists to build the field and create rigor around responsible investment decision-making.
- Signatories commit to six broad principles and participate in regular reporting.
- The PRI starter guide includes the section Introductory Guides to Responsible Investment—Real Estate.

United Nations Environment Programme Finance Initiative (UNEP FI)

- Involved in development of the PRI, UNEP FI brings together financial institutions and investors to work toward more sustainable financial systems.
- A UNEP FI working group has developed a framework incorporating ESG into real estate investment processes.

Resources

To Evaluate ESG Performance in Real Estate

GRESB

- This organization's annual assessment tool benchmarks ESG performance for real estate and infrastructure investments and has increasingly incorporated social factors.
- GRESB produces one of the more rigorous reporting frameworks to measure ESG outcomes and actions within real estate portfolios and is frequently referenced and requested by asset allocators.
- Once a socially aware strategy is established, GRESB participation allows for ongoing development as the tool's standard evolve, driving practices along the *E, S,* and *G*.
- Via participation, those reporting to GRESB can also access the Task Force on Climate-Related Financial Disclosures (TCFD) alignment report and Sustainable Finance Disclosure Regulation (SFDR) product and entity-level reporting, supporting ESG integration into reporting.

Resources

Asset-Level Building Certifications

Although the world of building certification is perhaps most well known for acknowledging and driving environmental performance (think **LEED**, **BREEAM**, **Living Buildings**, **IREM Certified Sustainable Property**, etc.), these tools increasingly seek to also drive and recognize health, community, and equity-focused activities at the building level.

Socially focused building certificates include:

INTERNATIONAL WELL BUILDING INSTITUTE™

fitwel®

International Well Building Institute (IWBI) and **Fitwel**

- Both provide certifications of "healthy buildings" that support and promote the health and safety of occupants.
- IWBI also provides WELL Equity certification of buildings that promote equity, inclusivity, and well-being of users.

Resources
For Multifamily and Affordable Housing

Multifamily Impact Council

- This organization established the Multifamily Impact Framework, which includes a set of principles, definitions, guidelines, and metrics for impact investments in the multifamily sector.

Stewards for Affordable Housing for the Future (SAHF)

- This consortium of 12 affordable housing nonprofits advocates for and provides best practices for sustainable affordable housing.
- SAHF developed a Framework and Guidelines for a System of Resident Services within affordable communities.

Resources

Equity in Real Estate

ULI

WHERE THE FUTURE IS BUILT

Urban Land Institute (ULI) Social Equity Resource Hub

- This compendium of educational materials and resources focuses on social equity and real estate.

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PREAfoundation Diversity Builds Better Futures

DE&I Resource Library

- These resources and links are meant to serve as a starting point for organizations seeking to enhance their diversity, equity, and inclusion programs.
- This list of resources was compiled jointly by the PREA Foundation and PREA's Social Impact Committee.

Resources
For ESG Reporting and Disclosure

Sustainability Accounting Standards Board (SASB)

- These standards are for disclosure of financially material ESG information.
- Along with universal standards, the site includes specific industry guidance for real estate and real estate services.
- However, emphasis of specific guidance for real estate is mainly on the environmental aspect of ESG.

Global Reporting Initiative (GRI)

- These international standards are for public and investor reporting of ESG impacts.
- GRI sustainability reporting standards are widely used and highly rigorous.

Resources

Defining a Theory of Change and Selecting KPIs

Developing a strategy is critical to success, fit, and longevity of social initiatives. Within the impact sector, an organization's process of self-definition may be called its **theory of change**.*

A theory of change can be useful for many reasons. One is that it can help identify the critical actions and outcomes an organization wants to track and measure, many in the form of key performance indicators (KPIs).† One foundational resource for designing and selecting KPIs is:

IRIS+ from the **Global Impact Investing Network (GIIN)**

- IRIS+ provides taxonomy to measure and manage social and environmental impacts across impact theses.
- It includes defined metrics to encourage comparability.
- GIIN also provides various other resources and tools to help incorporate ESG into investment decision-making.

* M. Brown, "Unpacking the Theory of Change," 2020, *Stanford Social Innovation Review.*

† Metric selection is further discussed on pages 70–78 of this guide.

Resources

For Understanding Social Impact

IMPACT FRONTIERS

Impact Frontiers

- The organization maintains the Impact Management Platform, which cross-references many reputable and emerging impact frameworks.
- It introduced the Five Dimensions of Impact and has produced a series of free online curricula to support the development of sound impact measurement and management systems.
- It has been instrumental in driving forward the understanding and prioritization of contribution and additionality within impact investments.

The Impact Principles

- This set of nine principles helps guide investors in the implementation and management of impact investments.
- It requires submission of third-party impact process assurance to validate the depth and quality of practices in place.

Operating Principles for Impact Management

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Resources
For Self-Assessment of ESG Progress

[Future-Fit Business](#)

- This organization provides guidance to firms, investors, and advisors on how to incorporate ESG into their processes.
- The group's self-assessment benchmark measures progress.

B Impact Assessment (BIA)

- This tool certifies companies' high achievement on social and environmental factors, as well as on transparency and maintenance of certain legal commitments.
- BIA can be used as a self-assessment tool or as the first step in becoming a certified B Corp.
- Coaching and other tools are also available via B Lab.

Creating a Framework: In Summary

- After considering information available elsewhere, organizations need to build their own frameworks to guide their efforts, often starting with a specific theory of change.

- The details of each organization’s framework will be unique, but most will share certain commonalties.
  - **Consulting with peers to learn from their experiences can be a valuable first step.**

- As discussed, we do not endorse any specific framework or approach, but several issues should be considered in any framework’s design.
  - We provide a general outline of the essential issues to consider in building a bespoke framework, which we refer to as the “**Five *Ws***.”

Components of a Framework: "Five *W*s"

A mnemonic for the essential items of a general framework is the "5 *W*s of writing," which we have reordered to correspond to the order in which they likely should be considered in developing a framework for socially positive investing: **why, who, what, where,** and **when.**

(The final fundamental—"How?"—is addressed in the next section of this guide, which describes successful implementation.)

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Five *Ws*—Why?

Why?

- Thoughtful consideration of **why** an organization would like to integrate social awareness into its investments is an essential first step and speaks to the firm's intentions.
  - What is the rationale driving this initiative?

- Answers to this question will have bearing on all other components of the framework and should be kept at the center as other framework components are set in place.

Five *W*s—Why?

Why develop a socially aware investment lens?

Although the “why” will vary from organization to organization, some possible answers include:

- To develop a long-term investment mindset in line with evolving fiduciary duty definitions
- To seek better risk-adjusted returns by targeting underserved markets or new growth opportunities
- To increase the value of specific assets and/or to obtain more clarity on potential growth drivers
- To reduce risk
- To respond to market demand for socially positive investment products
- To respond to regulatory and disclosure pressures
- To improve the functioning of the firm or team and/or to attract talent
- To create social advantages for the ultimate beneficiaries (e.g., of a pension fund) and the communities in which they live, work, and play
- To improve the functioning and long-term prospects of the overall real estate investment industry
- To create social good for its own sake and/or to support a moral or ethical philosophy or approach

This list is not comprehensive; these are examples only. **Each organization will have its own central driver**, which may include multiple supporting reasons. Careful consideration of the “why” will help direct efforts on the rest of a framework and be paramount to the ultimate implementation of socially aware investing.

Five *W*s—Who?

Who?

A number of sub-questions fall under “who” in developing a framework for consideration of investments with socially positive attributes:

1. Who will lead?
   - New initiatives need a champion within the organization to lead the changes required.
   - Beginning to consider investments with positive social attributes may require changes throughout the firm. Buy-in from senior management is essential.
     - Senior management should be involved from the beginning, debating and establishing the “why.”
   - After the initial decisions, senior management may appoint an individual or a team to lead the social initiative (or may choose to lead it themselves).

Five *Ws*—Who?

Who?

2. Who are the key stakeholders? Are any stakeholder groups considered underserved or vulnerable in some way? Who will represent key stakeholder groups in consultations?

3. Who are external groups (e.g., nonprofits or community groups) that could provide partnership or expertise to enhance the plan?

4. Who are external professionals, such as consultants or other partners, that should be used?

5. Who will analyze the social attributes of investments—a specialized team that advises other investment professionals, or will expertise be diffuse throughout the organization, with all departments and professionals incorporating this into their work?

6. Who is ultimately responsible for the design, implementation, and success or failure of the process?
    - Lack of specific accountability can sometimes result in new initiatives languishing.

7. Who will most benefit from adopting this approach? Who is put at risk? Whose opinions/voices are missing from the design process? Who will help weigh in at key evaluative phases?

Five *Ws*—What?

What?

- **What specific socially positive outcomes are desirable?** This is an extremely important decision for any organization.
    - On what areas of social good (or harm avoidance/risk reduction) will the organization concentrate?
        - This will determine the types of actions it takes and the types of potential investments it considers.
    - What are specific goals to strive for?
    - What will success look like, and how will it be measured?

- **Different organizations will have different goals under the social umbrella, some of which may be more easily quantified than others.**

- Deciding which goals to emphasize will, in large part, be determined by an organization's culture and its stakeholders' desires.

Five *Ws*—What?

<u>What?</u>

- **Materiality** is another important consideration and may depend on the specific sector and/or geography in which an organization invests.
  - On what issue(s) should the organization concentrate to have the most material impact on both the social issue and the investment outcomes, given the nature of the organization and its investments?

- Decisions on "what" must also be made in light of decisions from the "why" portion of the framework.

- It is important to acknowledge that resource limitations will likely force an organization to choose goals to emphasize and have a bearing on which goals the organization can reasonably undertake.
  - Resource requirements and limitations will be partially determined based upon the organization's answer to "who."
  - **Ultimately, it is better for an organization to effectively address a limited number of social goals rather than attempt to (likely ineffectively) attempt to address everything.**

Five *W*s—What?

<u>What?</u>

- For purposes of this discussion, we consider three main categories of social issues:
  1. **Community impact**
  2. **Health and wellness**
  3. **Human capital, including diversity, equity, and inclusion**

- As noted previously, this list concentrates on issues that can create positive social outcomes rather than simply avoid negative ones. This is not meant to downplay the importance of other areas, such as respect for human rights; we simply assume that users of this guide are already attempting to avoid negative outcomes as a matter of course and are looking for guidance in creating positive social outcomes through their investments.

Five *W*s—What?

What?

- Appendix I provides a partial list of social considerations and goals that fall under each broad category and could be targeted by real estate investors.
  - This is **not meant to represent a complete listing**, and the specific issues are presented only as examples. Organizations may identify their own goals that do not fall on the list but are quite legitimately part of the *S* of ESG.

- For reference, each issue listed in the appendix is mapped to a specific indicator underlying the UNSDGs, recognizing the importance of those objectives.

Five *Ws*—Where?

Where?

- Along with “what” social issues an organization will target, it must make a decision about the level at which those issues will be addressed—the “where” decision.

- As shown in Appendix I, each issue listed can be addressed at one or more of three different levels:
  1. **Property and surrounding area level**
     - Changes at a specific property to create positive social outcomes within that property or the surrounding area
  2. **Firm or organization level**
     - Changes made within the organization to address social issues
  3. **Industry level**
     - Positive social changes in the overall real estate investment industry (and/or other industries that may be part of the supply chain) that can be supported by the organization and propelled forward by its actions

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Five *Ws*—Where?

Where?

- Determining the level at which the chosen goals will be pursued is required for establishing the implementation actions to follow.
  - Implementing a socially aware program of investments without first deciding at what level the organization will pursue its social objectives is not possible.
  - The “where” decision will also help in developing metrics of success as an organization gives thought to where (and when) measurable progress should be observed.

- Not every goal can be pursued at every level (as shown in Appendix I). However, most goals can be pursued at more than one level.

- An organization that is ready to address social factors in a systematic way should consider all possible levels at which they can be addressed (firm, property, or industry).
  - For example, supporting industry-level diversity, equity, and inclusion (DEI) initiatives is valuable but does not absolve a firm from addressing DEI issues within its own organization.
  - However, resource constraints are real, and not all firms will be able to address their chosen goals at all possible levels initially.

Five *Ws*—Where?

<u>Where Within the Firm?</u>

- For social issues pursued at the organizational level, another important "where" question is to which parts of the organization the social attributes of investments will apply.
- Will consideration of social factors cover investment activities firm-wide? Will they be considered only within specific investment vehicles, products, or mandates? Will consideration of social factors include non-investing activities of the firm (i.e., will social responsibility be considered in other corporate decisions and activities)?

<u>Where Geographically?</u>

- Real estate is a physical, location-based asset class.
- Social issues can be location based as well. They may be local, regional, national or even global.
- Investors should decide, based on where they typically invest and have expertise (and in what types of assets), on which locations they should focus their efforts and where they can have the most material impact.
  - Answers to this will vary across investors—some may focus on social factors in small, local areas; others may focus on global issues across a large portfolio.

Five *W*s—When?

When?

- An important question for any organization is when to launch, begin, or reengage in an initiative that considers social factors.
  - What needs to be in place prior to implementation? What is the estimated time frame to deliver results? Does this time frame depend on market conditions?
  - An organization may prefer to proceed in stages, adopting certain goals initially or incorporating social considerations into only part of the firm's investment activities, reevaluating on a regular basis, to slowly broaden the program over time.

Five *W*s—When?

<u>When?</u>

- Developing a calendar for regular evaluation of an ongoing program is essential.
  - Milestones for evaluation should be in place in advance of implementing the program to ensure accountability and support proactive planning.
  - This should include a review of which targets and benchmarks are being pursued and a review of the effectiveness of the process.
  - Evaluation cadence (e.g., quarterly, annually, or other) must be designed in light of the particular social goals being pursued and their potential time horizon for achievement.
    - Some social goals are long term in nature and require significant time before success can be judged (although interim goals are possible); other goals may be more immediate.

3. Implementation—How?

Overview

- The real estate industry's approach to socially aware and/or accountable investments is still developing and in flux. Universally accepted definitions and metrics are lacking.
  - This is changing as organizations such as SASB, GIIN's IRIS+, and others (see the list of resources earlier in the report) are increasingly aligned with one another and their metrics are adopted by investors throughout the capital markets.

- Various glossaries and definitions are available to help investors understand how others in the capital markets define certain terms. For example:
  - IRIS+ Glossary of Terms
  - Impact Management Platform's Key Terms and Concepts
  - Multifamily Impact Council's Multifamily Impact Framework, which includes definitions of affordable housing, threshold requirements to meet the definitions, and suggested metrics

- Although there is movement toward a more standardized approach to social factor integration, real estate is not yet at the point of having universally accepted definitions and metrics.

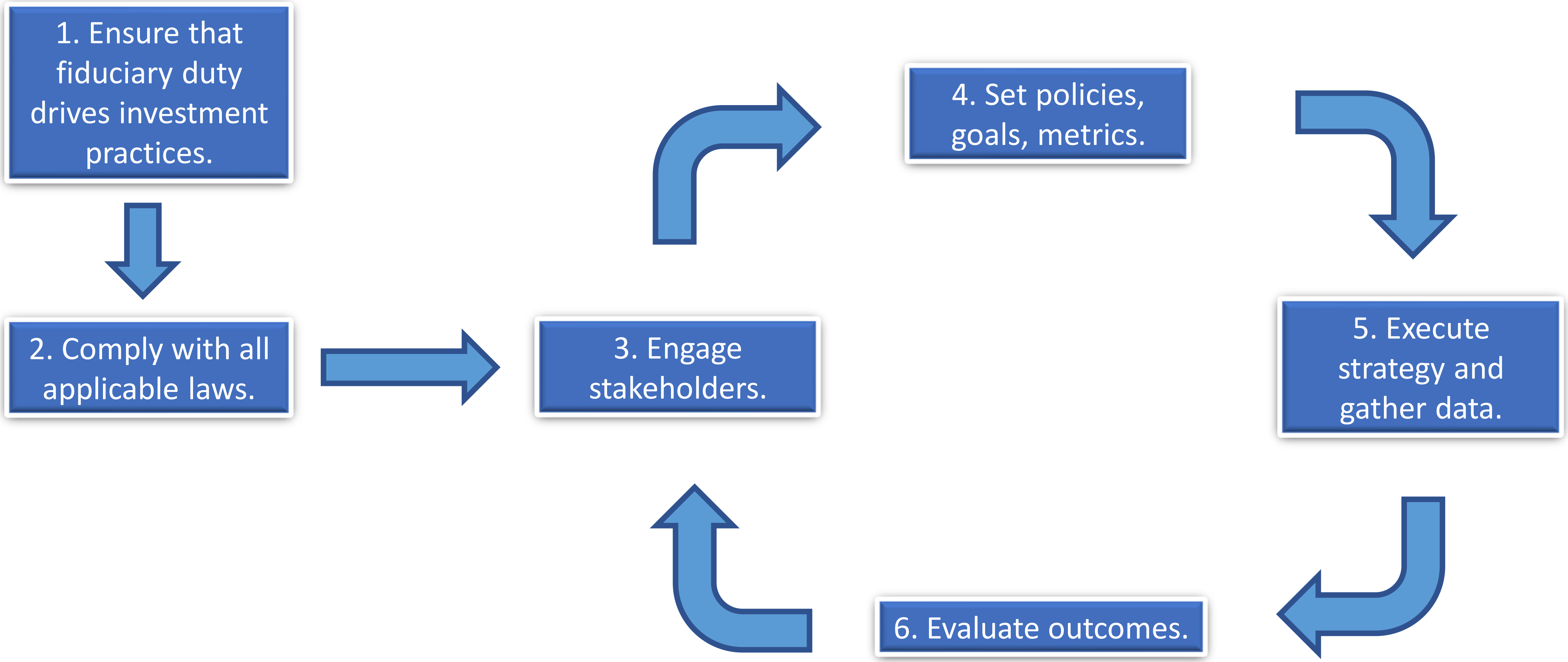
Overview

- Further, different investors, quite legitimately, can have widely different social goals they wish to emphasize (see Appendix I). This is not necessarily disagreement among investors, simply differing priorities and objectives.

- Hence, by necessity, implementation of an approach to investments with positive social attributes will be **bespoke to each organization**.

- No specific approach can be said to be best. There are multiple ways to effectively incorporate social considerations in investment decision-making.
  - **However, to be most effective, all approaches share some common attributes.**

Steps in Effective Implementation



Steps 1 and 2: Fiduciary and Legal Duties

- Step 1: Fiduciary duty must be the foundation of an effective approach to investments with socially positive attributes.
  - Private-market solutions to social challenges are likely to be most effective in the long term by offering attractive risk-return characteristics.
  - As noted previously, investments with positive social attributes can be attractive from a risk-return perspective and fully in line with fiduciary duty.
- Step 2: As a minimum bar, all applicable laws must be complied with.
- Following the first two steps, implementation should enter an iterative process: engaging stakeholders; determining policies, goals, and metrics; executing the strategy; and evaluating performance.

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Step 3: Engaging Stakeholders

- **Engagement with stakeholders is an essential and high-value part** of any investment program designed to address social considerations, and initial engagement should come before the design of specific policies and goals (and continue repeatedly throughout the implementation).

- The stakeholder identification and cultivation phase provides an excellent opportunity to find community partners that have insights, relationships, or expertise that may not exist within your organization.

Who Are "Stakeholders," and How Can You Engage Them Meaningfully?

The definition of *stakeholder* is necessarily fuzzy and depends upon the specific issue and circumstance. Relevant stakeholders could include employees, tenants, beneficiaries of the investment, members of the community close to or impacted by the specific property, suppliers, contractors, investors, members of a particular demographic or socioeconomic group, or other groups.

Stakeholder engagement can take many forms, including direct interaction with all relevant stakeholders, engagement with representatives, and use of experts in specific fields to help direct efforts. When stakeholders are widely dispersed, digital forms of outreach may be useful, although certain subgroups (e.g., older generations) may prefer other forms of communication, such as in-person focus groups or surveys.

The specific avenue to achieve stakeholder engagement depends on the circumstances as well as the nature and resources of the investor or investment manager.

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Engaging Stakeholders

- **Failure to engage with stakeholders can limit impact**, despite the best intention of the investor.
  - Supporting or creating local businesses that do not address the most pressing needs of the local community, designing educational programs for the community for which there is little interest, or designing programs to increase equity and inclusion without consulting with the group(s) the firm would like to be more inclusive of are examples of failing to engage stakeholders and therefore limiting the impact the investment or policy will have.

- Addressing any social issue involves setting some type of target (even if sometimes a general or qualitative target). **Ideally, targets will be set in consultation with stakeholders.**

Engaging Stakeholders

- **Capital providers are important stakeholders.**
  - Engaging with investors to build the business case for socially aware investments is essential, emphasizing not just the social attributes but also the risk-return characteristics of the strategy.
  - For institutional investors such as pension funds, beneficiaries are extremely important stakeholders. Engagement with beneficiaries should include communication and education regarding the investment strategy’s approach to social factor integration. This should include the risk-return advantages and benefits to the beneficiaries’ communities. (“Communities” could have different meanings, for example, specific locations, broader social groups, or society at large, depending on the relevance to the beneficiaries.)

- Following consultation with relevant stakeholders, the organization can begin to design policies to incorporate social issues in the investment process along with goals and metrics to measure outcomes.

Step 4: Policies, Goals, and Metrics

- Best practice is for policies governing the incorporation of social factors to be formal, written documents rather than “our approach is implicit in our corporate culture” or similar statements.
- The process of writing formal policies:
  - Brings focus and clarity to organizational priorities
  - Avoids potential ambiguities and ensures all members of the team are aware of expected practice
  - Provides an easy way to explain the internal process to outside parties
- As always, specific policies will be bespoke to the organization, and some considerations will be more or less relevant depending on the specific sector of investment and the specific characteristics of the organization.

Policies

- Policy development should begin with identifying key challenges: for example, constraints on internal resources or availability of proprietary or industry-accepted methodologies.
  - Avoiding certain constraints is not always possible; if that is the case, they should be incorporated into policy development so that the result is realistic and achievable.

- Policies on incorporating social considerations should be set at three levels:

  1. **Corporate**
  2. **Portfolio**
  3. **Investment**

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Policies

Establishing Corporate-Level Policies

- May address issues such as:
  - Good corporate citizenship toward all stakeholders, employees, and the communities in which the firm operates
  - Consideration of operational impacts on internal and external stakeholders
  - An environment that promotes the health and well-being of employees
  - Commitment to the protection and promotion of human rights throughout the organization and in all aspects of business dealings with external resources
  - A culture of respect that extends beyond employees to include all individuals associated with external resources and customers
  - An inclusive workplace culture that attracts, develops, retains, and elevates diverse talent
  - Other relevant issues that span the activities of an entire organization

Policies

Reporting Policies: Which Goals to Report and to Whom?

The industry lacks generally accepted standards for measuring social impact, although there are resources to help set key performance indicators (KPIs) (see later in this report). In some cases, goals will necessarily be qualitative rather than quantitative. The setting of quantitative goals is a best practice whenever possible, but organizations should not let a lack of quantitative KPIs deter them. In this developing area, qualitative goals are sometimes necessary, and this can be explained to relevant stakeholders.

To whom to report specific social goals is an important consideration. When they are integral parts of the investment strategy, targets (and KPIs) should be reported to investors to avoid strategy creep and make capital providers aware of performance. When targets are not integral to the investment thesis and the firm considers itself to be socially aware, it must decide whether to report goals only internally or also externally—perhaps to different degrees of precision. Some may worry that externally committing to specific social goals may open them up to the appearance of failure if progress does not match the stated goal, which may deter some firms from setting any goal. In the case of qualitative goals, there may be a fear that external parties may view “success” differently from the firm. In general, external reporting of goals and results is preferred because it creates accountability. External reporting is also the differentiator for socially accountable groups. However, especially at the early stages of a program, a firm may prefer to share goals and results only internally as it builds its program. Firms should not let fear of external reporting deter them from setting any goals for social impact—as firms gain experience, reporting policies can be adjusted.

Establishing Portfolio-Level Policies

- Policies that include social goals, associated KPIs, and operational practices to be tracked across the portfolio
- Strategy for reporting on goals and performance, including which KPIs to report, to whom, and at what frequency
- Policy on whether reporting of social performance will be consolidated with financial reporting or reported separately
- More stringent policies on tracking and reporting KPIs for investors considering themselves both socially and socially accountable

Policies

Establishing Investment-Level Policies

- Social considerations should be incorporated into investment research, analysis, due diligence, and decision-making.
- Investment memos should address not just expected investment returns but also the anticipated impact of investments on the relevant social considerations.
- Baseline metrics for social factors should be measured ex ante, when making an investment, and over the life of an investment so progress can be evaluated in context.
- A policy for investment exit should be developed, establishing how to ensure that progress toward a social goal is maintained after the asset is sold.

Goals and Metrics

- Within the social aspect of ESG, while progress is being made, the industry continues to face challenges in setting definitive objectives/targets and in determining how to quantify, track, and report progress.

- As noted, specific challenges include:
  - Widely held, generally accepted standards for measuring an investment's social impact are lacking. However, progress is being made, and investors are increasingly aware of standards that exist. See resource links throughout this guide.
  - Data collection remains a significant challenge across the industry, especially for global managers trying to gather information from local operating partners that often have different languages, legislation, and cultures.

- However, an ESG Working Group white paper, "Amplifying the "S" in ESG: Investor Myth Buster," notes that, despite the very real challenges, **"it is still possible to integrate social performance in investment analysis more rigorously than most investors do now."**

Goals and Metrics

- Goals and associated metrics should **focus on outputs and outcomes from the strategy, not only inputs**. For example:
    - In a socially aware strategy, goals should not be solely the amount of capital or percent allocation of the portfolio but should include the progress made on chosen social factors.
    - Though policies on diversity, equity, and inclusion are necessary, goals should reflect not just the establishment of policies but the generated effect on the firm and targeted groups as well.
- Actions such as allocating capital or crafting policies are critical and foundational milestones (and in some cases may be an important preliminary goal), but ultimate goals should also include the effects of these things.
- An effective (and often necessary) tool to measure progress is **tenant or stakeholder surveys**.
    - The effectiveness of programs designed to provide benefits to tenants or other stakeholders is impossible to judge without asking those who are to benefit about their experience.

Goals and Metrics

In some cases, qualitative targets and reporting will continue to be necessary as strategies and the field mature. In others, quantitative data will be available to measure and report on results. In many cases, both qualitative and quantitative data will be useful and can serve slightly different functions.

Important Steps	Qualitative	Quantitative
1. Decide social factor to address.	Describe general goal, consistent with investment strategy.	Describe general goal, consistent with investment strategy.
2. Determine relevant metrics/KPIs.	Describe which stakeholders will be most affected, what activities will be taken in service of the goal.	Define inputs, outputs, and outcomes to reach the goal in quantitative measures, referencing available tools.
3. Establish target.	Describe what would constitute improvement, what would constitute success or achievement of the goal.	Select specific targets for each metric. Identify specified time frame.
4. Collect data.	Compile interviews, surveys, general observations.	Establish a system to collect and verify data on metrics, including surveys.
5. Report results.	Develop case studies, descriptive reports.	Report achievement in terms of metric and percent change relative to target.

Strive for Quantitative, But Don't Fear Qualitative

- Many market participants, accustomed to analyzing investment performance with quantitative data, may be uncomfortable with the use of qualitative measures for some social factors.
- Resources can help in the development of quantitative metrics (see following slides). In general, quantitative data is usually preferred, but some qualitative analysis will be unavoidable because of the nature of the issues and the nascent stage of the industry in considering social factors.
- A need for qualitative analysis should not deter market participants from incorporating social considerations.
- Qualitative analysis can be rigorous and unbiased (it is not just "storytelling") and can be a preferred method for explaining goals and outcomes to some stakeholder groups.
- Qualitative analysis can help explain quantitative results, and employing both approaches can often create synergy.

Resources for Metrics

- Often, developing a system for measuring and reporting on social impact performance is enhanced by using existing third-party certification or benchmarking systems.* For example:
  - Building certifications such as WELL or Fitwel focused on health or the WELL Equity rating system to measure a property's performance on equity, inclusivity, and well-being of users
  - CORES certification for those providing resident services in affordable housing communities
  - B Corporation certification, which utilizes the B Impact Assessment
  - Benchmarking systems such as GRESB (annual reporting tool) or Future-Fit (self-assessment).
  - References to standardized scores such as Walk Score, Transit Score, or Bike Score for properties
- The relevant certification or benchmarking system will depend on the particular social factor(s) being considered. Other systems for measuring achievement along various social impact dimensions continue to proliferate.
- It is also common to begin by adopting a set of principles published by a third party or signing on to certain pledges (e.g., UNPRI, OPIM, ILPA Diversity in Action).

* Many resources provided in this section are also referenced on pages 32–41 of this guide. Many existing third-party tools and frameworks can be helpful for both high-level strategy conception and specific KPI and metric design. Groups are encouraged to revisit external resources iteratively throughout design and implementation.

Resources for Metrics

- Given that social strategy design is inherently bespoke, many organizations may want to develop bespoke metrics and systems of measurement and reporting as well. However, a number of resources are available to help develop tested, implementable metrics that are relevant and effective to measure progress toward social goals.
- These resources can be used as is, combined with internal work, or used as a baseline for consultation with peer organizations, industry groups, and/or outside experts when developing metrics tailored to specific circumstances and goals.

IRIS+ Core Metrics Sets

- Provides sets of metrics for various aspects of impact, categorized by the UNSDGs and aligned with the Impact Frontiers 5 dimensions, along different impact goals and themes
- Developed by GIIN based on evidence and best practice
- Includes metrics that are standardized, allowing comparison across investments but are also customizable

Global Real Estate DEI Survey

- Provides global survey of diversity, equity, and inclusion in the real estate investment industry and is supported by 16 industry associations
- Covers both DEI programs and policies as well as employee demographics
- Can be used to benchmark DEI policies and accomplishments

Resources for Metrics

GRI
- Covers standards for ESG reporting, including social impact
- Is organized in modules, covering universal standards, sector standards, and standards by specific topics
- Discusses many topics relevant to social issues within real estate investment
  - For example, GRI 413 (Local Communities) outlines reporting for community.

NCREIF PREA Reporting Standards
- Shares standards, supported by industry associations, for reporting performance of real estate funds
- Includes a set of ESG KPIs, with some for specific social factors

Impact Frontiers
- Provides tools (for both enterprises and investors) to help describe impact in a multidimensional framework (across what, which, how much, contribution, and risk categories)
- Links high-level intentions on social impact to more specific goals using an “ABC” classification scheme (ABC = Avoid harm, Benefit stakeholders, Contribute to solutions) with resources available to apply at the outcome, firm, and portfolio levels
- Includes online educational resources to help organizations design their own system of metrics and measurement within the Impact Frontiers system

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Resources for Metrics

For asset-owners, asset-managers, and/or property managers focused specifically on affordable multifamily housing, resources such as the following may prove particularly helpful in selecting relevant, measurable metrics:

Multifamily Impact Council

- Includes suggested reporting metrics in the Multifamily Impact Framework for both the property and portfolio levels
- Provides metrics for various aspects of affordable housing, including affordability, housing stability, economic health, resident engagement, health and wellness, climate/resilience and DEI

Stewards for Affordable Housing for the Future

- Provides its Toolkit for Resident-Centered Outcomes Measurement, including guidelines on data collection

Upholding a High Bar in Multifamily Housing

At the intersection of real estate and social challenges, affordable housing is a naturally and often referenced example.

Given that it is an asset class where stakeholders, and typically many stakeholders, *live,* multifamily operators importantly must uphold rigorous and validated methods for measuring performance. Growing consensus around how and which efforts to measure will help individual groups and the sector as a whole continue to evolve.

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Resources for Metrics

- In this guide, we do not endorse any specific approach, set of metrics, or system of reporting. Each entity must select the resources most relevant, based on the firm's defined strategy and theory of change. The above are examples of useful resources for developing social impact measurements.

- A more expansive list of resources, including ones centered on specific social issues, can be found in the appendix to the ULI report "Zooming in on the "S" in ESG: A Road Map for Social Value in Real Estate" (ULI members only)

- Many useful publications are available from various sources, including the UK Green Building Council's "Delivering Social Value: Measurement," the "Social Value Toolkit for Architecture" from the Royal Institute of British Architects, and numerous others.

We encourage readers to make use of these resources in developing metrics and systems for measurement tailored to their specific organizations, investments, and goals.

Although bespoke metrics and approaches may need to be developed in some cases, utilizing existing resources (and engaging with peers to learn from their experiences) will greatly ease the process, speed adoption, and lead to greater comparability across investors and portfolios.

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Step 5: Execute Strategy and Gather Data

- The strategy is put into practice (i.e., due diligence on specific investments and capital deployed when appropriate) in line with the established policies and goals.

- As capital is deployed and investments mature, socially accountable investors must also gather the data to calculate the selected social metrics.
  - Best practice is to gather and track data throughout the life cycle of the investment (although some social considerations, and the associated metrics, are more long term in nature).

Step 6: Evaluate Outcomes

- For socially accountable investors, this step also involves reporting the goals, outcomes, and KPIs, both internally and to key stakeholders.

- Consideration must be given to timing:
    - Both periodicity (annual, quarterly, etc.) and how long after action the data are collected and outcomes measured
    - Adjustment to KPIs in the reevaluation step if there is a lag between actions and data collection

- Determination of whether goals have been met and consideration as to why or why not (analogous to return attribution for portfolio returns) is essential.

Reevaluation and Iteration

- The implementation process should be iterative with ongoing reevaluation.
- After stakeholders are engaged, policies and targets are developed, actions are taken, and resulting KPIs are observed and reported on, taking a sober second look at both the results and the process is important.
- **Stakeholders should be reengaged**, not just to report results but to provide feedback on topics such as whether metrics are, in fact, measuring the correct things, goals have been set appropriately, how the process could be expanded or improved, etc.
- Market participants should assume at the outset that social factor integration will be **an iterative process requiring continuous refinement of the process over time**. Although this can feel disheartening to some, participants can take comfort knowing that doing so will lead to improvement in processes and outcomes over time.
- Technology solutions may be useful throughout the process at all stages. See Appendix II for examples.

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Conclusion

This guide has emphasized throughout that there is no one-size-fits-all approach to dealing with social considerations in a real estate investment context. Different organizations may have very different, but equally legitimate, goals under the umbrella of the *S* of ESG, different approaches to the issues involved, and different methods for measuring success. **The idiosyncratic nature of the process is not a problem but rather a feature—it allows different organizations to tailor their approaches to where they can have the most material impact on both social issues and their own investment performance.** There is no one right way to consider social factors in investment decision-making.

Although there is no single approach to the issues, what is universal is that attention to social considerations has the potential to create better investment outcomes for the providers of capital when incorporated into the investment decision-making process with care. Consciousness of social factors is not something reserved for do-gooders or at odds with investment performance. Solutions to public challenges through private capital working in the market is the essence of capitalism and can be the source of significant returns.

The capital markets, and real estate in particular, are in the early stages of addressing social factors in investments. Much work is still to be done, but progress is occurring rapidly.

Appendix I:
Social Considerations in Real Estate and the UN SDGs

Social Considerations in Real Estate and the UNSDGs

This appendix provides examples of specific social issues that real estate investors can target listed under the main categories of **Community Impact, Health and Wellness, and Human Capital Including Diversity, Equity, and Inclusion.** This list is not meant to be all inclusive, and other specific issues exist that can be addressed to create both social value and economic value for investors. It is also important to note that society is dynamic; therefore, the issues and goals considered most important may, and probably will, change over time. Each issue on the list indicates whether it can be addressed at the **firm level, property level,** and/or **industry level**.

Socially positive investments do not need to address all issues listed. Some investors may choose to concentrate on only one issue or a few specific issues; others may choose entirely different issues to emphasize. Some may choose to address one issue at the firm level and others at the property or industry level. Developing a framework for investments with socially positive attributes, as described in this guide, will help firms in determining which issues to emphasize and how.

Each issue listed in the appendix is mapped against the United Nations Sustainable Development Goals (UNSDGs), recognizing their preeminence as a framing approach and importance to the global community**. Investors are advised to take a similar approach to aligning with any external framework they've referenced, building convergence across standards.**

The UNSDGs are 17 goals designed to help achieve sustainable development globally, including the support of economic growth by addressing a range of social needs around education, health, and employment opportunities. Under each goal, several more specific targets are referenced for a total of 169. The list beginning on the next page maps specific targets to each social issue in real estate investment. Note that this mapping is approximate, and the list provides only examples of goals and targets that could be addressed in each category. The relationship of any investment program to the UNSDGs will depend on the specifics of the program.

PREA pension real estate association

CATEGORY/SUBCATEGORY	LEVEL AT WHICH IMPLEMENTED			POSSIBLE RELATED UNSDGs
	PROPERTY AND SURROUNDING AREA LEVEL	FIRM OR ORGANIZATION LEVEL	INDUSTRY LEVEL	
Community Impact				
Affordable housing	✓	✓ (Part of investment strategy)		UNSDGs 1.2, 9.1, 11.1, 11.3, 11.7
Housing stability (including eviction prevention programs, financial planning, services to enhance financial stability of residents, etc.)	✓	✓ (Part of investment strategy)		UNSDGs 1.2, 9.1, 11.1, 11.3, 11.7
Employment for locals	✓	✓ (Part of firm investment strategy and firm culture)		UNSDGs 1.2, 8.3, 8.5, 8.6, 10.1, 10.2, 10.3
Local skills development and education	✓	✓ (Part of firm investment strategy and firm culture)		UNSDGs 4.3, 4.4, 4.5, 4.6, 8.3, 8.6, 10.1, 10.2, 10.3
Local business development	✓	✓ (Part of firm investment strategy and firm culture)		UNSDGs 1.2, 8.2, 8.3, 8.5, 10.1, 10.2, 10.3
Benefits to current residents, not just buildings, from community improvements	✓	✓ (Part of firm investment strategy and firm culture)		UNSDGs 9.1, 9.2, 9.3, 10.1, 11.1, 11.2, 11.7
Community amenities and resources (including basic necessities such as groceries and health-care services, as well as higher-level services and amenities)	✓	✓ (Part of firm investment strategy and firm culture)		UNSDGs 4.2, 8.10, 9.c, 11.2, 11.3, 11.7

CATEGORY/SUBCATEGORY	LEVEL AT WHICH IMPLEMENTED			POSSIBLE RELATED UNSDGs
	PROPERTY AND SURROUNDING AREA LEVEL	FIRM OR ORGANIZATION LEVEL	INDUSTRY LEVEL	
Community Impact (Continued)				
Educational programs within the community (can include financial literacy, college coaching, tutoring or other support for students, or other specialized topics or forms of learning)	✓			UNSDGs 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 8.3, 8.6
Support of local charities (including support of local groups such as youth groups or other local organizations)	✓	✓		Depends on nature of charity
Placement of activation (e.g., conversion of blighted or underused spaces into community spaces)	✓	✓ (Part of investment strategy)		UNSDGs 9.1, 11.7, 11.1

CATEGORY/SUBCATEGORY	LEVEL AT WHICH IMPLEMENTED			POSSIBLE RELATED UNSDG
	PROPERTY AND SURROUNDING AREA LEVEL	FIRM OR ORGANIZATION LEVEL	INDUSTRY LEVEL	
Health and Wellness				
Healthy buildings	✓	✓ (Part of firm investment strategy)		UNSDGs 3.9, 6.1, 6.4, 11.6, 11.7, 12.4
Healthy lives (on-site health education and services to promote physical and mental health for employees and tenants/community)	✓	✓ (Firm policies for employees)		UNSDGs 3.7, 3.8, 3.d
Tenant amenities	✓	✓ (Part of firm investment strategy)		Depends on nature of amenities
Walkability	✓	✓ (Part of firm investment strategy)		UNSDGs 11.2, 11.3, 11.6, 11.7
Tenant fairness	✓	✓		Depends on sector and nature of issues
Health-care benefits	✓ (Health-care access for surrounding community)	✓ (Firm policies for employees)		UNSDG 3.8
On-site safety and worker injury prevention	✓	✓		UNSDG 8.8

CATEGORY/SUBCATEGORY	LEVEL AT WHICH IMPLEMENTED			POSSIBLE RELATED UNSDG
	PROPERTY AND SURROUNDING AREA LEVEL	FIRM OR ORGANIZATION LEVEL	INDUSTRY LEVEL	
Human Capital Including Diversity, Equity, and Inclusion				
DEI: Recruitment		✓	✓ (Support of industry initiatives)	UNSDGs 5.1, 5.5, 5.c, 8.5, 10.2
DEI: Retention and promotion		✓	✓ (Support of industry initiatives)	UNSDGs 5.1, 5.5, 5.c, 8.5, 10.2
Childcare	✓ (Childcare amenities on site for tenants or community)	✓ (Firm policy)		UNSDGs 4.2, 5.1, 5.4, 5.5, 10.2
Inclusive family care practices (including accommodations/leave for care of children, elders, disabled)		✓ (Firm policy)		UNSDGs 5.4, 5.5
DEI: Supply chain		✓ (Firm policy)	✓ (Effect on industry)	UNSDGs 5.1, 5.5, 5.a, 5.c, 8.3, 8.5, 9.3, 10.2
DEI: Diverse/emerging-manager programs		✓ (Firm policy)	✓ (Effect on industry)	UNSDGs 5.1, 5.5, 5.a, 5.c, 8.3, 8.5, 9.3, 10.2
Training/sponsorship/mentorship outside firm		✓	✓ (Support of industry initiatives, e.g., PREA Foundation, SEO, Toigo, Girls Who Invest. See PREA's Library of DEI Resources for fuller list.)	UNSDGs 4.3, 4.4, 4.5, 5.5, 8.3, 8.5, 8.6, 10.2, 10.4
Access for people with disabilities	✓	✓		UNSDGs 8.5, 9.1, 10.2, 11.1

CATEGORY/SUBCATEGORY	LEVEL AT WHICH IMPLEMENTED			POSSIBLE RELATED UNSDG
	PROPERTY AND SURROUNDING AREA LEVEL	FIRM OR ORGANIZATION LEVEL	INDUSTRY LEVEL	
Human Capital Including Diversity, Equity, and Inclusion (Continued)				
Responsible contractor policy		✓ (Firm has policy)	✓ (Applies to supply chain)	UNSDGs 8.5, 8.8, 10.4
Fair wages		✓ (At firm)	✓ (Required in supply chain)	UNSDGs 8.5, 8.8, 10.4
Training and education of employees		✓		UNSDGs 4.3, 4.4, 4.5, 5.5, 8.3, 8.5, 8.6, 10.2
Employee turnover		✓		UNSDGs 8.3, 8.8, 10.2
Discrimination and harassment policies		✓ (At firm)	✓ (Required in supply chain)	UNSDGs 5.1. 5.5, 8.5, 8.8, 10.2, 10.3, 10.4
Compliance with local labor laws and effective avenue(s) for whistleblowers to report inappropriate conduct		✓ (At firm)	✓ (Required in supply chain)	
Culture of respect and policy of conduct (extending beyond employees to vendors, clients, tenants, etc.)		✓ (At firm)		

Appendix II: Technology Tools to Support Social Impact Within Real Estate

Technology Tools to Support Social Impact Within Real Estate

A wide variety of technology solutions have been created that may be helpful in creating positive social impact within real estate. A representative sample of these applications are listed below, delineated into categories of social impact, to illustrate potential benefits from “proptech” approaches. Alternatives in the market exist, products are constantly evolving, and new applications being introduced; we encourage due diligence to find the tools and services which best align with your organization’s strategy and business needs. Listing here in no way indicates endorsement of these specific companies or products, nor have we investigated their quality or adequacy for purpose; they are presented merely as examples. We encourage you to explore alternatives.

CATEGORY	EXAMPLE COMPANY	INTENDED IMPACT	URL
Community Impact *(specifically financial well-being)*			
Positive credit reporting for on-time rent payments	Esusu	Helps tenants improve their credit score and get credit for paying rent	www.esusurent.com
Renter rewards	Bilt Rewards	Offers rent payment by credit card with no fees to the landlord or tenant as well as credit card rewards; also offers free rent payment–reporting to credit bureaus	www.biltrewards.com
Rental payments in installments	Flex	Makes rent payment more manageable; aligns with biweekly pay schedule	www.getflex.com
Tenant-screening income verification	Payscore	Automates the process of tenant income verification; reduces the amount of time and paperwork required	www.payscore.com

CATEGORY	EXAMPLE COMPANY	INTENDED IMPACT	URL
Community Impact *(specifically financial well-being)* - continued			
Online notary services	Notarize	Provides access to notarization services, e.g., for home-purchase documents, from anywhere	www.notarize.com
Security deposit insurance	Rhino	Offers new tenants an alternative to cash security deposits	www.sayrhino.com
Leverage of homeownership to pay in-home care expenses	Wellahead	Helps people who need to access equity in their home navigate available products	www.wellahead.co
Health and Wellness			
Indoor air quality	Kaiterra	Monitors and improves indoor air quality	www.kaiterra.com
Indoor greenery	Zauben	Provides building occupiers the mental, emotional, and physical benefits of green space via self-contained living walls	www.zauben.com
Indoor air quality and greenery	Origen Air	Provides air filtration and monitoring via living plant technology	www.origenair.com
Human Capital Including Diversity, Equity, and Inclusion			
Construction team alignment on DEI goals	Teamstack	Increases construction team performance and diversity	www.teamstack.ai
Assistance-animal verification	PetScreening	Streamlines the process of verifying service animals, including for disabled tenants	www.petscreening.com
Organization, support, and facilitation of employee diversity, equity, and inclusion groups	Workbud	Makes employee-driven DEI groups more effective	www.workbud.com

What Is the *S* in ESG?
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