NAREIM dialogues

BEST PRACTICES SHARED | VALUE ADDED

FALL 2023

INSURANCE *in an era of* climate catastrophes

ALSO IN THIS ISSUE

The advantages of modular office solutions for smaller tenants

Stepping up DEI initiatives to create lasting change

Eliminating Scope 3 emissions to decarbonize the environment

A SUPPLEMENT TO INSTITUTIONAL REAL ESTATE AMERICAS, NOVEMBER 2023


PARTNER

NAREiM dialogues

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IvyLee Rosario, Meeting Director

Insurance has been a hot topic over the last few years for real estate investment managers, sparked by an onslaught of climate challenges and the risk that comes with it. As the market is swiftly changing, firms are trying to plan to better manage their risk, reassess market investment and establish stronger relationships with underwriters and brokers.

NAREIM spoke with Haley Donato of Continental Realty Corporation, Mona Sullivan of PCCP and Ryan Severino of BGO, for this issue of Dialogues, on best practices for managers looking to navigate the insurance market and what additional obstacles are set to come.

Some managers have been looking into self-insurance, but that doesn't look to be a one-size-fits-all solution. Some managers are forming captives, noting that it's a considerable investment upfront in both time and money. However, it could be the right choice for those looking to alternatives outside of the commercial market. For smaller shops, this might not yet be attainable without a larger balance sheet.

Climate change has drastically changed the property insurance environment, from renewals to pricing. With the increased amount of fire, wind, hail and floods that have taken place just this year alone, more managers are trying to better assess risk in their trickiest locations such as Florida or Texas.

"If you decide you don't want to be in those markets because of insurance issues, you're making a huge bet in an asset allocation framework that might not have anything to do with the underwriting economics and demographics portfolio diversification. So that's why we're not writing off or avoiding any markets completely," said BGO's Severino.

According to Lockton Companies, insurance rates have risen for 22 consecutive quarters, and, according to their latest report, for every dollar of known expected loss transferred to an insurance company, they will charge you a premium between 2x and 3x.

Check out our roundtable to learn more about what's to come in 2024 and beyond for managers and the insurance market. Additional contributing topics for this issue include navigating ESG, using pattern recognition to drive investment, key practices for lasting change with DEI and more.

Meeting takeaways

Read the takeaways from NAREIM's meetings in 2023

in-person meetings

Sustainability

March 8, 2023

New York City

A "tidal wave" of net zero capex will hit asset pricing in the short term as buildings are required to improve emissions, but a lack of comps and transactions makes upgrades a hard sell, NAREIM's Sustainability meeting heard in March 2023. Members discussed the difficulty in demonstrating the ROI in capex and strategies in their paths to net zero.

Key highlights included:

- **Insurance hikes.** Due to extreme weather and climate risk, one member said their premiums increased almost 40% YoY.
- **Greenhushing.** Members challenged themselves in relation to greenhousing and whether they were understating their ESG work to balance different regulatory approaches by the US and EU.
- **Tracking the S in ESG.** One member uses GRESB's Social KPIs as a guide, while others focused on the employee, tenant and surrounding community.

Black Real Estate Roundtable

March 30, 2023

Atlanta

In March 2023, almost 60 black professionals gathered at Ponce City Market in Atlanta for NAREIM's second Black Real Estate Roundtable for discussions on mentoring, sponsorship, career pivots and lessons learned.

Members heard that for black professionals in real estate investment management, relationships are critical to advancing careers and opportunities. "Build relationships before you need them. It's a simple philosophy. You never know down the road how that relationship may be important for you," said one speaker.

Key highlights included:

- Sponsors **don't have to look like you**. And it can be powerful when they don't.
- **Do more than just your job**. Show the curious mind to managers and your organization.
- **Invite analysts** to sit in on every call. "I want them to hear what we are talking about, to absorb," said one member.

in-person meetings

Portfolio Management, Acquisitions & Asset Management

June 8, 2023

New York City

US office values will fall 24% while private real estate values will drop 15%, but managers have the leverage in lender negotiations, NAREIM's Portfolio Management, Acquisitions and Asset Management meeting heard in June 2023. Over 100 members participated in meetings across three distinct streams of content for PM, AM and Acquisitions professionals, with shared networking throughout.

Key highlights included:

- Out of 17 property types, researchers revealed **US office** came last with returns before asset management fees of 5.9%.
- Real estate managers can use **ChatGPT and machine learning** to create chatbots for investor inquiries, answer RFPs and send property update analyses to Spotify accounts for easy listening.
- 57% of member firms don't have **dedicated risk managers**, despite increased risk owing to insurance premiums, loan covenant breaches and the debt renegotiations.

Data & Information Management

September 14, 2023

Austin

Data governance is even more important in an AI world, and you sell it to C-suite by comparing it to the brakes on a car: to help the firm move even faster, NAREIM's Data & Information Management meeting heard in September 2023.

Members also heard that you don't need dedicated innovation budgets to deliver improvements in data strategy. Instead, data should be embedded in every group and project across the firm, with business champions leading the innovation of the manager.

Key highlights included:

- **Sell the positives** of data governance programs and bring business onside.
- Train for patience around data breaks by **showing little wins, constantly**.
- The **CFO is the most impactful person** on your data committee.
- Get the **business to pitch new tech solutions** and include an allocation analysis upfront.

in-person meetings

Architecture & Engineering

September 20–21, 2023
Chicago

Roughly 25% of office assets could be viable for conversion to residential — with the sweet spot being buildings sized between 350,000 and 500,000 sq ft, with 45 ft core-to-window distances and producing 300–400 units, NAREIM's Architecture & Engineering meeting heard in September 2023.

Members discussed strategies how to maximize office values and a case study on converting existing assets to net zero.

Key highlights included:

- New alternative insurance products to consider include structured programs and parametric trigger products.
- But your property data has to be accurate and detailed to even be considered by insurance carriers. "Insurance is now financial engineering," the meeting was told. "You will fall to the bottom of the barrel if your submission quality and data isn't good enough."
- Plastic pipe systems made of PEX, polypropylene and polyethylene can be fragile and fail faster than originally expected.

For more information on any of our meetings, please visit www.nareim.org/event

JOIN US FOR UPCOMING NAREIM MEETINGS

Legal, Compliance & Risk dinner
November 8, 2023
NYC

Bonus strategies for 2024
November 15, 2023
Virtual

Insurance strategies for 2024
November 28, 2023
Virtual

Capital Raising & IR
December 6–7, 2023
NYC

Portfolio Management dinner
January 31, 2024
NYC

Sustainability
March 5–6, 2024
Atlanta

Black Real Estate Roundtable
March 27, 2024
NYC

Latinx Real Estate Roundtable
April 24, 2024
NYC

Portfolio Management
June 5–6, 2024
NYC

Asset Management
June 5–6, 2024
NYC

Architecture & Engineering
Sept 11–12
Boston

INSURANCE *in a* brave new world

In an era of climate catastrophes, the insurance market has responded with volatility. Incumbent renewals are uncertain, prices have skyrocketed and insurers are pulling out of high growth Southeast and Southwest markets.

For real estate investment managers, this means traditional valuation and risk models no longer serve their purpose. The markets have changed permanently, with insurance having the potential of making or breaking a deal. NAREIM spoke with* BGO*,* Continental Realty Corporation *and* PCCP *on getting the capacity needed, the importance of educating deal teams and crafting a story, and what it takes to self-insure.

By Zoe Hughes and IvyLee Rosario

PARTICIPANTS

Haley Donato
Senior Vice President, Asset Management & Finance, **Continental Realty Corporation**
In her role, Haley directs CRC's asset management, disposition and debt teams for both multifamily and retail. During her nearly 12-year tenure at CRC, Haley has built and grown the teams that cover those core functions. Haley also has oversight of CRC's data science and business analytics platform and the firm's insurance programs. She sits on CRC's Investment Committee and Executive Committee.

Ryan Severino, CFA
Chief Economist and Head of US Research, **BGO**
Ryan is responsible for global and regional economic research, analysis and forecasting as well as property market research, insights and forecasting. Prior to BGO, Ryan served as Chief Economist at JLL and before that served as Senior Economist and Director of Research at REIS. He is currently Adjunct Professor of Finance and Economics at Columbia University and New York University.

Mona Sullivan
Vice President, Insurance Risk Manager, **PCCP**
Mona has more than 15 years of commercial insurance and risk management experience specializing in professional & management liability, property and casualty liability. She has worked with the AON Risk Management Outsourcing (RMO) team on several contracted opportunities supporting a variety of special project needs. She currently holds a Georgia Property & Casualty Brokers License.

This summer was marked by blistering heat, wildfires, flash floods, hail and ice storms around the globe. Describe how climate change is affecting the property insurance environment for each of your firms. Let's start with renewals.

Haley Donato, Continental Realty Corporation: Our Property Program renewed on March 1st, which feels like an eternity ago based on all that has happened in the insurance markets this year. Our entire portfolio is under one shared and layered master program with a TIV [total insurance value] of around $2.5 billion. We have roughly 15% of our exposure in Florida and another 10%–15% in in the coastal Carolinas, so we certainly felt the pressures of the market's sensitivity to more climate-prone areas. We do have the benefit of being both retail and multifamily, so the diversification in occupancy types helps to improve our risk from an underwriter's standpoint.

All told, we had a challenging renewal in terms of premium pricing like everyone else. But we were able to get the full limits that we sought for both wind and flood, and we were able to maintain our existing deductible structure. As a March renewal, I think we were ahead of some of the more severe capacity constrains the market saw in late spring/early summer.

Mona Sullivan, PCCP: PCCP has a June 1st Property/Casualty renewal. We also felt the pressures of the market's sensitivity in more climate-prone areas. Florida and Texas were the most challenging. We generally stressed the advantages of our national diverse occupancy types with underwriters. One item that assisted our renewal was we already had Bermuda and London markets on our insurance program. We were generally able to secure full limits and maintain our existing deductible structure, with a handful of outliers.

What did you see with pricing?

MS: PCCP has multifamily properties on both coasts, specifically in Florida and California. We generally felt the impact of both the hurricane and earthquake exposures. Overall, I'm very pleased that our renewal premiums were better than I would have imagined. We experienced double-digit increases. I believe PCCP was able to demonstrate to all our current and prospective insurance markets the benefits of our strong claims-handling procedures, revised contract review processes and various risk mitigation efforts that I have implemented.

HD: We were actually oversubscribed a bit in the final days leading up to our renewal so we were able to push a little bit on pricing and terms, but it still came out well above expectations we may have had in the fourth quarter of 2022.

Our retail portfolio is a nice counterbalance to our multifamily portfolio, which is a more challenging product type for carriers. In addition to our 9,000 apartment units owned and managed, we have almost 8 million square feet of retail with a national footprint. Our product type diversification and geographical diversification make our portfolio more attractive from a risk standpoint.

Our loss history is also very strong — top decile among our peer group. Losses have always mattered in insurance pricing, but in a really challenging market, a long-standing track record of controlling our losses had a very big impact on pricing.

Can you comment on how much rates increased in 2023?

HD: This is a question we get asked often as people are trying to mentally reconcile how their outcomes stack up. The truth of the matter is that it is really hard to use an apples-to-apples pricing comparison across various programs for a variety of reasons: portfolio concentration in occupancy and geography, limits carried relative to TIV, deductible structures, loss histories, reported values… the list goes on.

This year, more than ever, the property insurance markets saw a sizable disparity in pricing increases between CAT[catastrophe]-prone areas and non-CAT areas. I've read industry publications showing increases between 25% and 50% for CAT-exposed portfolios with 'minimal loss history' and as much as 2x–3x for heavy CAT portfolios with 'poor loss history.' It's a huge range of reported outcomes — again making benchmarking quite challenging.

GETTING CAPACITY

In this volatile environment, what makes a good manager to underwrite and get the capacity needed?

HD: Aside from the characteristics of the portfolio you're insuring, there are a handful of important focus points that I believe have made us a better or easier risk to underwrite. First, we are self-managed — that matters a lot to markets. Our standout loss history is, in part at least, due to operating our own real estate and having a hands-on approach to risk management. Every time I meet with carriers they really focus on our self-management. It is important for underwriters to know that the insured is the same firm that makes the day-to-day decisions.

MS: Insurance companies typically underwrite to the story that you present to the marketplace. Representing your firm with the best possible underwriting presentation is essential.

When I joined PCCP as their first Vice President, Insurance Risk Manager, I worked very closely with PCCP's construction and operational consultants by putting them at the forefront of implementing better contract review processes and identification wording. Second, I streamlined how we utilize our insurance brokers, including setting more frequent comprehensive and strategic meetings.

Third, I revisited how insurance is 'viewed' within PCCP. We determined that employees could benefit from more education around insurance. I added risk and insurance concerns to every checklist, conference call and line item where possible. Lastly, I took a hard look at our relationships with our insurance markets, focusing on what could be leveraged and what had actual value.

Partnerships with your insurance markets is very important. Many of our markets were willing to continue the relationship. I believe this was because they either recognized the new processes and procedures that were being implemented, and/or they recognized me and my team from past projects. So, it's all about the partnerships and relationships you retain and the risk story that you tell.

HD: I totally agree with Mona's point there — insurance is a relationship business and how you present your story to the marketplace is critical. We spend a tremendous amount of time on our presentation materials and we make a point of meeting with as many markets as possible in-person. That means traveling to New York, Atlanta and London to meet with dozens of carriers at each renewal. We also work very hard to have very clean, thorough data on our Statement of Values to ease some of the administrative aspects for underwriters.

On the point of relationships, I think we saw that matter even more this renewal [this past March]. It's easier to do business with people when there's a working relationship in place and that has an exaggerated effect in a very hard market. Almost all of our incumbent markets renewed with us, but some had to downsize their limits or move up to a higher attachment point because of market conditions. Because of this, we did have to expand our stack with some new carriers, as I know many did in this renewal.

Adding new carriers can create additional considerations: for one, new markets generally quote higher than the incumbent markets that already know you, understand your risk and have hopefully benefited from strong historical performance. The second consideration is the complexity it adds to the stack. Each new carrier is another policy form to negotiate to ensure concurrency all the way up the stack.

Mona, did you see an increase in the number of markets to get what you needed?

MS: I was able to retain many of my incumbent carriers, but there were challenges in filling out capacity as the markets had shifted, limited or withdrew their limits. At the end of the day, it is a numbers game; we worked with everyone in the market.

I did have a small number of markets say, "We can't do it at all." But I believe that happens in any renewal; there are always one or two markets with less capacity because their underwriting approach has shifted.

ECONOMIC CONDITIONS

Ryan, what are you seeing from an economist's perspective?

Ryan Severino, BGO: I don't see a path to it getting better quickly, unfortunately. As an economist, I'm usually able to weigh the costs and benefits. But even for me, more on the business side, it's so upside down. We are dealing with changes we have never encountered before.

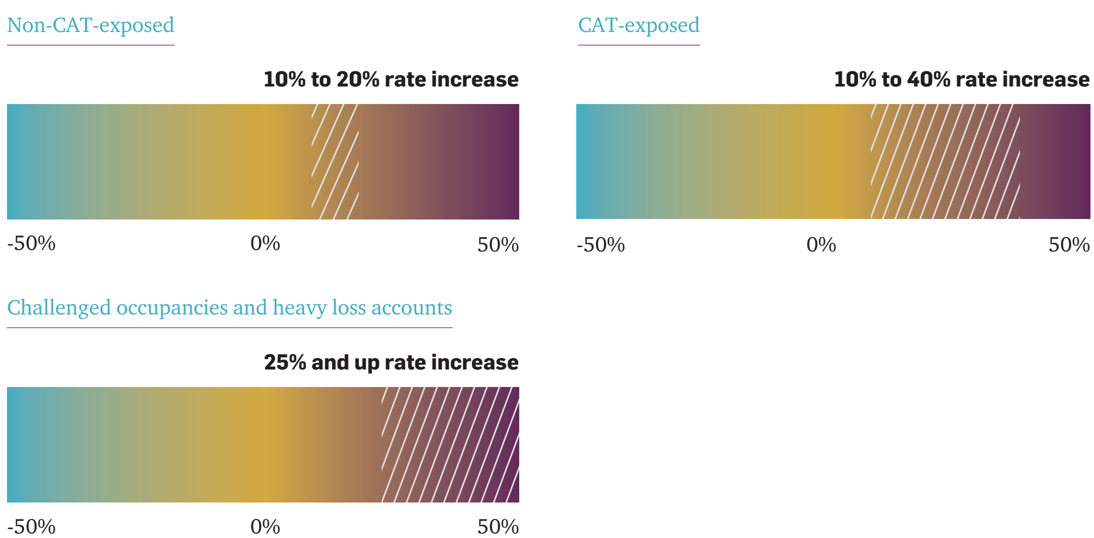
We will have to see how the rest of hurricane season plays out before we know if we are going to have some kind of recalibration next year. But underwriters are clearly planning on an increased frequency of events that used to occur at much longer intervals.

People in my circles are estimating a rough 2024, but not as catastrophically bad as 2023, and then hopefully a return to normal. But that again is all, in my view, purely predicated on the question of, are they profitable years? Is 2023 a highly profitable year and maybe 2024 as well? Will capital come back in, because as much as it's a climate change issue, it's also a supply and demand issue, and the capital has pulled out of the space.

What are you seeing and hearing from the underwriters and brokers?

MS: With my background as a former global insurance

1. Expected property insurance rate increases in Q3 2023



Note: Rate ranges presented here reflect expected renewal outcomes — as of the Lockton Market Update June 2023 publication date — over the next quarter (Q3) for the majority of insurance buyers.

Source: Lockton Market Update, June 2023.

broker/consultant and global risk manager, I do not foresee the market improving anytime soon. I agree with Ryan — while 2024 may not be as catastrophic as 2023, I believe risk managers will still be faced with the same hurdles.

My takeaway from market meetings is the importance of valuation and climate change. This summer we all witnessed wildfires in Canada and across Southern Europe and insurers pulling out of California, Florida and Texas. I believe these additional roadblocks will only harden the market and keep risk managers constantly on our toes.

In my opinion, risk managers will need to put forth their best risk story in their renewal meetings. They will need to emphasize what they are doing to prepare for these climate changes that are occurring. How are they setting up their assets to mitigate these new and emerging risks? What's their business continuity plan and the effectiveness of their claims management? Do they have all the equipment and processes to put fires out quickly? I believe insurance carriers will drill down on risk mitigation and loss control efforts. I would advise every risk manager to start reevaluating their loss control measures.

RS: I agree with all of that. To add to that, we're in an environment where valuation is jumping around and somewhat opaque. We don't know if the Federal Reserve is done [raising interest rates] and what's value in a world where the Fed might not be done. What does it mean in a world where the climate is changing in ways we haven't seen and don't understand?

> “Insurance is literally making and breaking deals in the market for CAT-exposed areas.”

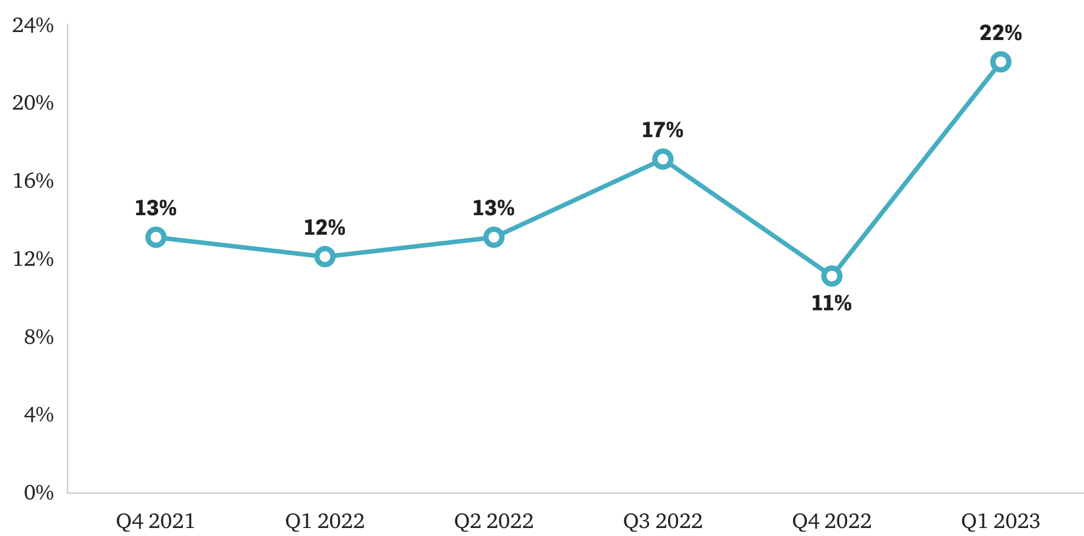
VALUATION UNCERTAINTY

How are you managing uncertainty when valuing or appraising assets?

HD: Since the beginning of the year we have not presented a deal where the insurance was not heavily reviewed and questioned by the investment committee. Up until this year, the folks that won the deals were those which would underwrite more aggressive rent growth or use floating rate debt instead of fixed rate debt.

Now, whoever can secure the cheapest insurance is winning deals. It has become such a large line item and it feels so unpredictable right now [insurance] is literally making and breaking deals in the market for CAT-exposed areas. And as insurance has taken an unwelcome spotlight, there's a lot of education that needs to be happening across the commercial real estate industry.

2. Property insurance rates have risen for 22 consecutive quarters



Source: Lockton P&C Edge Benchmarking Report, Q1 2023.

How does that change the calculus when evaluating a deal?

MS: Every time I look at a deal, I'm also looking at how this asset may affect renewal next year. I can't just check the box and say "yes" and move on because we have to look at the continuity and sustainability of our program.

The challenges are outliers that I generally consider when reviewing the insurance on a deal. Case in point, the labor laws and large court payouts — also known as nuclear verdicts — related to construction in New York have become a primary focus on many New York deals. We are also highly sensitive about crane contracts for construction deals.

I have to be a step ahead. It takes a village. My risk team is constantly evolving and evaluating how we need to move forward with new deals and renewals. We are working closely with our brokers, our carriers and our deal team.

The main questions are: How do we stay ahead of climate change and all the other risks that could happen down the line? And what is the story I'm going to paint for the markets for upcoming renewals, not only in 2024, but also in 2025 and beyond? I believe the markets will face challenges to recover from these catastrophic losses, both nationally and globally.

RS: I like your comment about cranes because I was wondering if there was an interaction between cranes and wind resulting from climate change that's going to cause

3. Example of a Florida roof geometry CAT model

Florida (buildings constructed prior to 1995)

Construction class	Occupancy type	# of stories	Flat roof	Hip roof	Gable roof	Braced gable roof
Wood frame	Residential	Single	+M	-H	+M	+L
		2+	+M	-H	+M	+L
	Industrial/ Commercial	Single	+M	-H	+M	+L
		2+	+M	-H	+M	+L
Masonry	Residential	Single	+M	-H	+M	+L
		2 to 3	+M	-H	+M	+L
		4+	+M	-H	+M	+L
	Industrial/ Commercial	Single	+M	-H	+M	+L
		2 to 3	+M	-H	+M	+L
		4+	+M	-H	+M	+L
Concrete or steel with concrete roof deck	Residential	1 to 3	+M	-H	+M	+L
		4 to 7				
		8 to 14				
		15+				
	Industrial/ Commercial	1 to 3	+M	-H	+M	+L
		4 to 7				
		8 to 14				
		15+				
Concrete or steel with metal or wood roof deck	Residential	1 to 3	+M	-H	+M	+L
		4+				
	Industrial/ Commercial	1 to 3	+M	-H	+M	+L
		4+				
Light metal			+L	-H	+L	-L

Magnitude code	Description
+H	Increases losses by >20%
+M	Increases losses by 5%–20%
+L	Increases losses by 0%–5%
	No change in loss estimate
-L	Reduces losses by 0%–5%
-M	Reduces losses by 5%–20%
-H	Reduces losses by >20%

Delta between +H and –H is 40% or more impact to loss expectation.

Rule of thumb:
For every dollar of known or expected loss transferred to an insurance company, they will charge you between 2x to 3x premium.

Source: Lockton, using RMS modeling.

more cranes to blow off buildings. If that's the case, we're going to have to recalibrate our thinking about wind resistance and flexibility. We could be in a different world with that over the next five to 10 years as the climate really starts to change.

To add to that, I think about migration patterns in this country. People are moving to places where climate change is getting objectively worse. Some states where insurers are pulling out of are some of the states where they have the biggest migration patterns. Texas and Florida are one and two in this country. People are moving there, businesses are moving there and commercial real estate is increasing there, both in terms of the physical inventory and their valuation.

It's hard to see 2023 repeating over and over ad infinitum, but as more people and businesses continue to move to those places, coupled with climate change, environmental challenges are going to persist and likely worsen. Structurally this is a different and more challenging environment than the one I started in more than a quarter century ago.

RETHINKING MARKETS

Are you rethinking deals or markets due to recent insurance pricing hikes?

RS: There aren't any markets or property types that we're avoiding per se, but it definitely changes the mathematics on things like underwriting and returns. We are playing a different ball game than the one we were a few years ago. In some markets, it is permanently different now on the cost side, and so you had better account for that when you're doing underwriting, or it would be very easy to miss return targets down the road. It's also a challenge from a macro portfolio management perspective.

HD: You called this out in earlier comments, Ryan, that the areas experiencing the largest climate change issues, are the most scrutinized by the property insurance markets and are also the highest growth markets in most cases. Maybe you are now underwriting $1,800 a door instead of $1,400 a door but you might be seeing 6%–8% rent growth today in some of those markets.

It is difficult to sort out the math in a bubble when you're considering overall investment results. Some of the ultra-high growth markets like coastal Carolinas and Florida are the most heavily scrutinized on the property side. We haven't blackmarked any specific markets, but there are forces counteracting demographic trends we like as the insurance risks can be hard to quantify.

MS: Increases in rent may not equate to how the insurance expenses may increase. Insurance costs are generally becoming a larger factor in how deals pencil out.

RS: Coming back to the point that a lot of the markets where people are going are the places where there's the most potential trouble — it's hard to write off the Southeast and Southwest if others are there and generating good returns.

If you decide you don't want to be in those markets because of insurance issues, you're making a huge bet in an asset allocation framework that might not have anything to do with the underwriting economics and demographics portfolio diversification. So that's why we're not writing off or avoiding any markets completely. But we are going into them clear-eyed about the challenges that I think are more acute than they were just a few years ago. It adds another dimension to this competitive landscape. ◆

Thinking about self-insurance

With the way trends are going in the commercial insurance market, are you looking into self-insurance?

HD: Yes. We are in the process of forming a captive. We started the process immediately following our renewal. It's a considerable investment upfront, both in time and money, but we are at a point in the market that we want alternatives outside of the commercial market.

RS: There hasn't been a need to self-insure. But the world is changing and the need to self-insure may become more prevalent.

MS: Firms with big balance sheets are often able to self-insure. One can certainly expect Fortune 300 companies to have self-insurance as a large component of their program. Currently, PCCP does not have a pure self-insurance mechanism in our program.

Navigating *the* ESG landscape

By demystifying the maze of regulations, standards and certifications, the* Mapping ESG *report aims to help real estate organizations optimize their ESG paths and to accelerate change in the real estate industry's path to net zero.

By Lisette van Doorn, ULI Europe

Over the past two decades, it has become increasingly clear that the built environment has a crucial role to play in addressing some of the world's most pressing environmental and social challenges. As a result, the concept of ESG has firmly entered mainstream conversations and the real estate sector has started to develop its own definitions, criteria and methods to assess performance — first at an asset level, later expanding to cover full portfolios or organizations. Regulators have also started catching up, gradually increasing their expectations and requirements around sustainability.

This has left the real estate industry struggling to keep up with a growing number of frameworks, standards and certifications, making it increasingly difficult for participants to navigate the complex ESG reporting landscape, especially when considering bespoke requests from investors on top of the standards.

In response to this challenge, ULI, INREV and PRI, supported by PwC and a range of leading industry experts,[1] recently undertook an extensive mapping exercise to compare and assess the most important global ESG-related regulations, standards and certifications relevant to the sector; some with real estate-specific metrics and some that needed to be translated into the industry context.

The study, *Mapping ESG: A Landscape Review of Certifications, Reporting Frameworks and Practices*, released in Spring 2023, examined the purpose and the intended users of 14 different ESG standards, evaluating each of them in relation to the E, S and G components, identifying the overlaps and exploring opportunities to condense the ESG reporting burden.

[1] The preparation of the *Mapping ESG* report was supported by the following steering committee member organisations: AXA IM, Azora Group, BNP Paribas, Bouwinvest, CBRE IM, Generali, Ivanhoé Cambridge, Manulife Investment Management, PGGM and Vert Asset Management.

This article highlights the key lessons learned from the study, their applications in practice, as well as potential future challenges in the ESG reporting space.

No silver bullet

The real estate sector is often seen as lagging other asset classes and slow to respond — but the report has shown the enormous effort undertaken across the industry in the past two decades, in the absence of regulation, to put standards in place to encourage action in the field of ESG and report on progress made. However, as a result of this effort, the ESG reporting landscape has become increasingly fragmented. Exhibit 1 shows how the regulatory landscape has evolved globally.

The study made it clear that, despite the industry's desire for consolidation, there is no one-size-fits-all approach to ESG reporting. Some level of complexity will persist in this space, to meet a wide range of objectives, stakeholder needs and national regulations. The landscape is also likely to keep evolving, together with changing scientific knowledge and social norms.

This is why the first — and arguably the most important — step for all organizations is to properly understand the purpose and the intended audience of the existing frameworks and standards. This will help them to prioritize the ones that are most relevant to them and their stakeholders, focusing resources where they can make the largest impact.

To make this ESG reporting exercise easier, the whole sector — including the industry bodies who set the standards

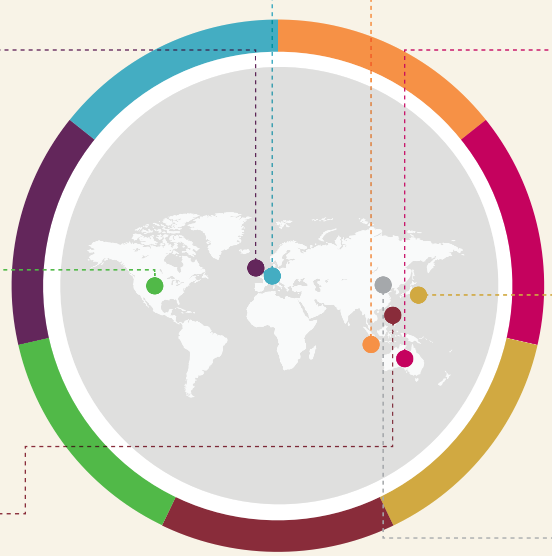
Exhibit 1: ESG regulation in an international context

Europe
- Strong focus on governance (e.g. EU-Taxonomy, CSRD, SFRD)
- Adaptation of Paris Agreement & Agenda 2030
- DNSH & minimum safeguards as fundamental principles

United Kingdom
- UK ESG regulations similar to EU requirements
- Introduction of Greening Finance Roadmap (e.g. green taxonomy, disclosure regulations)
- Focus on creating transparency & prevent greenwashing

United States
- Strong focus on climate change mitigation & higher environmental standards (Biden Administration)
- Large scale renewable energies projects (solar & wind)
- Development of ESG requirements & disclosure obligations (SEC oversight)

Asia Pacific (overall)
- Prioritization of environmental & net-zero carbon aspects
- Access to investment opportunities & capital requires strong ESG record (due to polycrisis)
- Western capital flows increase ESG demands on Asia-Pacific real estate market



Singapore
- Development of environmental taxonomy with real estate defined as one of three sectors with huge environmental impact
- ESG measures focus on biodiversity & vertical agriculture

Australia
- Focus on decarbonization of building stock & expansion of renewable energy infrastructure
- Intense use of PV solar systems enables the Australian real estate market to become one of the most carbon-emission-friendly markets globally
- Social aspects are seen as an investment target (differing to EU approach with minimum safeguards)

Japan
- Relatively few mandatory requirements for compliance with ESG criteria
- Focus consists largely of voluntary guidelines and initiatives
- Zero net carbon emissions & the transition to a circular economy is one of the main focus points

People's Republic of China
- CERDS introduction of a voluntary disclosure regulation regarding ESG criteria for companies
- Focus on domestic market & strongly oriented towards Chinese laws and goals (e.g. common prosperity)
- Issued guidelines on ESG reporting in 2008 by the Shanghai Stock Exchange & Shenzhen Stock Exchange

Report in practice

Mapping ESG provides much more than a global snapshot of the ESG requirements most relevant to the property sector — by providing greater clarity on what information is 'decision useful' for investors, the report also helps real estate companies to optimize their information-gathering efforts and, as a result, reduce the ESG reporting burden.

The report is also supplemented with case studies which illustrate best practice, while also highlighting the challenges of aligning with the existing frameworks. This is also valuable to organizations who are just starting out and are trying to understand what different standards mean to them in practice.

Since the publication of the report in April 2023, numerous organizations have used its findings to support and streamline their ESG reporting activities. As ESG issues become increasingly embedded into wider business operations, some companies — such as global real asset investment managers CBRE Investment Management and Azora Group — have shared the report internally, to ensure that not only sustainability-focused audiences, but also other teams (for example legal compliance and technical departments) can more easily understand the whole reporting landscape.

Some organizations have also used the study to identify efficiencies and to place asset-level activities into a broader context. Azora, for instance, used the summary of the ESG standards to analyze what impact different levels of LEED certification would have on their compliance with EU Taxonomy, allowing them to better articulate how certain sustainability measures can help them meet multiple objectives.

Similarly, the Sustainable Investment team at Ivanhoé Cambridge, a global real estate developer and investor, made sure that they were making the right decisions while aligning to the existing standards, by sense-checking them against the study. Ivanhoé Cambridge view the report as playing a significant role in helping to demystify the guidance for practitioners in the real estate industry.

The detailed mapping of the relevant ESG standards provides companies with a baseline understanding of the landscape, indicating the direction of travel. This is particularly important for smaller organizations that do not have the expertise or the resource to do a deep dive into all the requirements, which can be complicated and confusing.

The content of the report, particularly the self-assessment tool which helps companies identify the most applicable standards, empowers them to be more selective about what they focus on, and gives them the ability to justify their decisions. This in turn frees up more resources for taking action, e.g., on decarbonization, rather than just reporting on performance.

Vert Asset Management, a dedicated ESG fund manager, shares the *Mapping ESG* report with potential investment companies they engage with — especially the ones at the beginning of their journey — to help them understand what requirements might have to be met to satisfy investor expectations, and how to fulfill them efficiently.

— should come together to align as much as possible, making the most of the existing overlaps and striking a balance between the quality and quantity of reporting. We see it happening already with, for example, the IFRS Foundation taking over the TCFD monitoring responsibilities, or BREEAM integrating the CRREM pathways into its latest update.

Industry-wide collaboration will also be needed when tackling areas outside an organization's direct control: ESG standards increasingly take an 'ecosystem' view, aiming to provide stakeholders with a broader context and asking for data reflecting whole building performance or wider Scope 3 emissions. Organizations will have to engage with the value chain to keep up with best practice, which is likely to soon become a norm.

Potential challenges

The report also outlines some potential challenges the sector needs to be mindful of while navigating the road ahead.

> Sharing decision-useful information and reporting on ESG performance is essential; however, we can't afford to lose sight of the bigger picture — we need to step up the pace of climate action and accelerate real estate's progress towards net zero.

Definition of materiality

Firstly, the definition of materiality differs across the standards — some measures and approaches focus on 'financial materiality,' others on 'impact materiality,' and there are also standards that are based on 'double materiality' which combines both the financial and the impact aspects.

Data accuracy and coverage

Despite considerable progress in the past few years, the industry continues to struggle with data accuracy and coverage, which leaves some stakeholders relying on proxies such as third-party ESG ratings when making decisions. As the importance of measurement and management of data increases, real estate organizations are investing considerable resources in data collection, data sharing and data consolidation. However, the lack of globally aligned standards and data still presents a significant challenge.

Social targets

Reporting on social targets is particularly difficult, as social standards are based on varying norms and values, despite lawmakers across the globe striving for more harmonization in this space. All of these limitations need to be taken into account when interpreting performance assessments.

Evolving regulation

Evolving regulation also puts pressure on building certifications which, to keep their relevance and reputation as a mark of excellence, need to stay ahead of legal requirements. Although there is still no universal understanding of what a 'green building' exactly constitutes, lawmakers are increasingly focused on evaluating how actual building performance contributes to achieving broader climate targets, many of which were set following the Paris Agreement, not just benchmarking individual assets based on modeled performance against the industry norms.

The constant evolution of the landscape means that, even after organizations carefully choose the right standards that appropriately reflect their ESG strategies and meet their stakeholders' expectations, it is extremely important to keep monitoring the changing mandatory regulations, voluntary frameworks and definitions of best practice, while understanding science and social norms, all of which influence the issues considered material to real estate companies.

Cutting through the noise

The biggest challenge that the industry will face in the short and medium term is the rapid evolution of the landscape, with the existing standards being expanded and new frameworks emerging on a regular basis.

The whole sector needs to work together on reducing fragmentation and consolidating the existing landscape, while recognizing that no single standard, framework or certificate can meet all the wide-ranging stakeholder requirements. It is possible to cut through the noise — each organization needs to focus their efforts on the standards and metrics appropriate to their ESG strategy and their stakeholders. With this approach, there might well be an opportunity to reduce the ESG reporting burden.

Sharing decision-useful information and reporting on ESG performance is essential; however, we can't afford to lose sight of the bigger picture — we need to step up the pace of climate action and accelerate real estate's progress towards net zero. It is vital that the real estate industry uses the ESG standards as a tool to support social and environmental efforts, and not as a distraction from real action. ◆

Lisette van Doorn is the CEO of ULI Europe.

What OFFICE tenants want

In an evolving office market, modular designs that are move-in ready, well-located and amenity-rich with high-end design can appeal to smaller and medium-sized tenants.

By Rob Naso and Anil Erdem, BGO

With companies continuing to evolve their return to office (RTO) and hybrid work policies, employers increasingly are looking to landlords to create alluring office spaces that rebuild cultures and improve productivity lost during remote work. As evidenced by the rise in RTO mandates, even from Zoom, a company that has become synonymous with remote work, there is growing awareness of how crucial the office environment is in promoting collaboration, fostering creativity and enhancing the overall well-being of employees.

Workspaces have emerged as a critical battleground in the ongoing struggle to retain and attract talent in a highly competitive labor market. The bottom line? Buildings and businesses that offer thoughtfully designed and highly amenitized spaces that foster collaboration and facilitate flexible work arrangements are best positioned for success. And landlords who provide spaces and solutions that help their tenants succeed are best positioned to themselves succeed in a competitive market.

The current economic environment, characterized by escalating costs, fluctuating interest rates and a tight labor market, creates challenges for all organizations. According to a recent Vistage survey, 61% of CEOs say that hiring challenges are a major concern for their ability to operate effectively at full capacity.[1] And while large shares of the labor force continue to work in a remote or hybrid capacity, innovation and productivity have also underperformed in recent quarters. In fact, business sector productivity has experienced its sharpest decline on record — about 8% lower than the past three recessions' average. (see Exhibit 1)

Investing in high-end office designs, amenities and modern technologies, which play a vital role in attracting and retaining talent, boosting productivity and fostering collaboration, can be a daunting task, not to mention expensive. This is especially true for small- and medium-sized businesses that may neither have real estate experience or the resources nor expertise to design and deliver the caliber of these spaces themselves. A potential solution for this can be found in modular solutions,

[1] Joe Galvin, CEO sentiment holds with little change from Q3 [Q4 CEO Confidence Index], Vistage, January 5, 2023.
[2] US enterprise worker survey shows sustainability at work trends and forecast, Adobe, August 30, 2022.
[3] 2023 Gen Z and Millennial Survey, Deloitte.

which allow for efficient use of resources, reducing construction and renovation costs.

Designing the modern office

Today's employees prefer a variety of environments that nurture different types of work needs, from focus, concentration work and small group collaboration, to larger innovation and social spaces that inspire creativity, connection and personal well-being. Flexibility is a key driver in this changing landscape, and it is critical to ensure the modern office can adapt to a fluid, agile workforce. Modular design concepts — that make fully furnished, tech-equipped, move-in ready offices possible — may be a solution.

Amenities also play a vital role in crafting appealing office environments that attract, and subsequently retain, employees. They extend beyond the mere functionality of a workplace and add value by elevating comfort, convenience and overall employee experience. Wellness facilities, recreational areas and quiet zones allow organizations to cater to their physical and mental well-being.

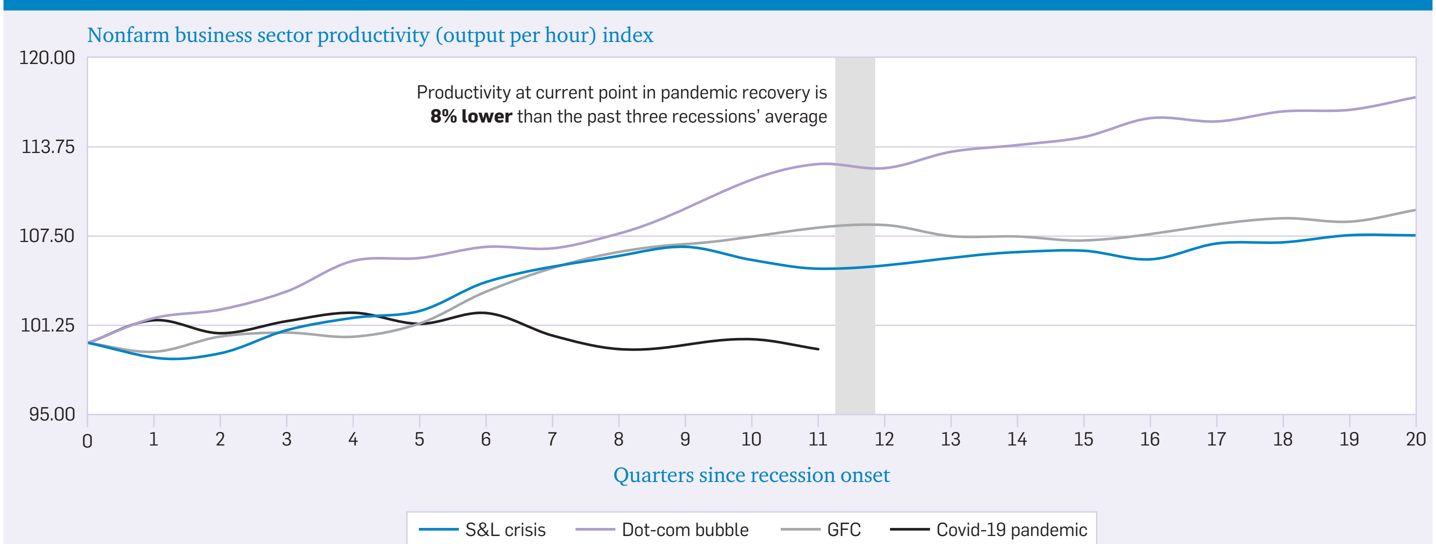
> “Sustainability and eco-consciousness rank high on the list of priorities for employees, who now actively seek workplaces that align with their values and have a positive impact on the environment.”

Sustainable, inclusive design

Sustainability and eco-consciousness rank high on the list of priorities for employees, who now actively seek workplaces that align with their values and have a positive impact on the environment. According to a recent study from Adobe, almost a third of US employees (32%) surveyed agreed that they would only work for an employer that prioritizes sustainability.[2] This is even more true for millennials and Gen Z — Deloitte found that more than half of Gen Z (55%) and millennials (54%) research a company's environmental impact and policies before accepting a job from them. Additionally, while a little more than half of Gen Z (55%) and millennials (53%) say they feel their employer cares about combating climate change, a combined 96% of Gen Zers and millennials are still pushing their respective companies to do more.[3]

Embracing sustainable and inclusive design principles can play a key role in fostering a positive workplace culture. Move-in ready offices can address these

Exhibit 1: Business sector productivity has experienced its sharpest decline on record



Source: JLL Research, Bureau of Labor Statistics.

[4] The Economics of Biophilia, Terrapin Bright Green, 2012.

Benefits of modular solutions

Compared to traditional fixed office design, modular components offer two primary advantages. They can easily be reconfigured and adjusted to meet changing needs and support flexible work arrangements. This flexibility allows companies to adapt to the evolving preferences of their employees while ensuring cost-effective utilization of office space. It also eliminates the disruption and downtime typically associated with renovating a space to accommodate changing layouts.

From a financial perspective, move-in ready offices provide not only the security, privacy and prestige akin to a traditional private office, but also encompasses amenities synonymous with co-working spaces. These amenities could include a diverse array of areas tailored for focused work and collaborative efforts, as well as well-equipped pantries for food and beverages. Additionally, the incorporation of lockers proves to be an important and convenient feature for employees. Given the prevalence of unassigned desks in the modern workspace, lockers provide a practical means for hybrid employees to store their laptops, personal effects and more.

Similarly, the integration of adjustable sit-to-stand desks cater to the diverse needs of hybrid employees without fixed workstations while embracing inclusivity. The utilization of modular furniture also empowers companies to quickly adjust their spatial arrangements as needed, without requiring lengthy and costly permits or construction renovations.

The concept of move-in ready offices extends an opportunity to smaller businesses that might otherwise struggle to afford a functional, aesthetically pleasing and fully amenitized workspace. Now, they can enjoy all the advantages of a reimagined office, crafted for the future by the world's best architects and designers.

concerns by incorporating eco-conscious materials, energy-efficient technologies and responsible construction practices. This includes sourcing materials and furniture from organizations who share the same sustainability values and ensuring all goods are built to last.

For example, the lobby renovation of BGO's 685 Third Avenue in Manhattan, New York City prioritized impactful changes with minimal environmental impact. By blending new materials with existing ones, the project upheld sustainability, waste reduction and recycling goals. The lobby's carbon footprint was minimized by reusing marble, frosted glass and wood elements. New custom finishes were also carefully integrated to harmonize with the old and energy-efficient lighting was installed to enhance brightness while lowering energy consumption.

The best modular design approaches also integrate biophilia — defined as the innate human instinct to connect with nature and other living beings — and natural light throughout the workspace, maximizing employee well-being. According to Terrapin Bright Green, those who experience biophilia-designed spaces may feel the benefit of lower blood pressure, a lower heart rate, expedited healing and improved cognitive performance.[4]

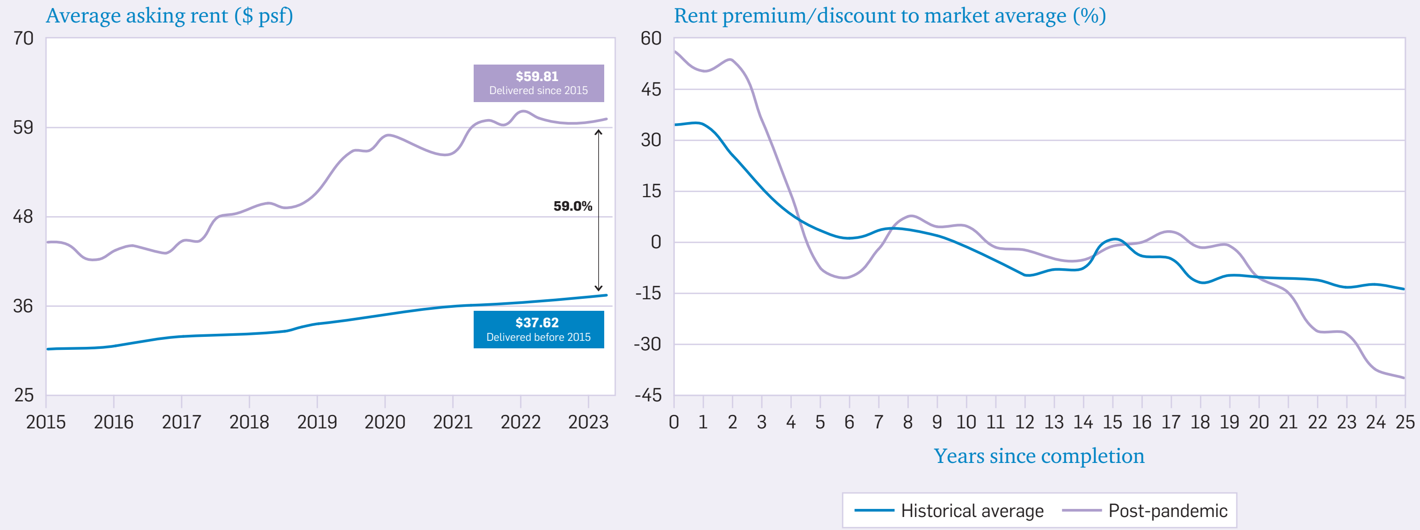
By embracing sustainable, inclusive design principles, move-in-ready offices can accommodate diverse working styles and accessibility needs, and empower organizations to create a workplace that not only benefits the planet but also ensures employees feel valued and supported, contributing to a thriving company culture. Many of these benefits that come with intentional, employee-centric, high-end design have been out of reach for small and mid-sized business, but the move-in ready office model bridges this market gap.

Beyond functional workspace

Forward-thinking organizations understand that providing a functional workspace is just the beginning. They recognize the significance of creating meaningful experiences to enhance employee engagement, satisfaction and overall well-being. These experiences extend beyond the typical 9-to-5 work hours to include before and after work. Recognizing this, progressive landlords now go the extra mile by providing a diverse range of activities and amenities that enrich these moments. By doing so, they empower their tenants to create valuable and fulfilling experiences within the office environment, showcasing their dedication to supporting employees beyond their professional obligations.

Experiences that add value create a sense of community and work-life integration. Activities before work, such as wellness classes or meditation sessions, create a positive and focused mindset, setting the tone for a productive day ahead. Conversely, post-work events like social gatherings, workshops or clubs offer a relaxed environment for employees to unwind and build stronger connections with their colleagues, nurturing a deeper

Exhibit 2: Rent premiums for new construction remain elevated and are widening, as are rent discounts for older vintages



Source: JLL Research.

sense of camaraderie and belonging. During lunch breaks, providing opportunities for employees to engage in recreational activities or even attend skill-building workshops can boost morale and recharge their energy for the rest of the day. These types of experiences can help break the monotony of the workday and contribute to a more vibrant and inclusive office culture.

Agility and speed to market

The focus on speed to market in RTO strategies is important. Swift implementation of strategies enables employees to resume on-site operations promptly, ensuring seamless business continuity and minimizing potential disruptions. Landlords who assist their tenants in prioritizing speed to market demonstrate proactive responsiveness to emerging challenges, adaptability to evolving conditions, and the ability to create a conducive and secure office environment that aligns with the needs and expectations of their workforce.

Upgrading office at an accessible price point

In today's ever-evolving office landscape, the capacity to adapt to shifting market dynamics is more crucial than ever. Business leaders face a high-stakes challenge, as they strive to meet two seemingly conflicting objectives: they must cater to changing employee demands and expectations by creating office spaces that foster productivity, align with the company's brand and mission and entice employees to work in-office. However, as rent premiums for new construction remain elevated (see Exhibit 2), this means they must also be cost-effective during a period where hybrid work remains prevalent, costs have skyrocketed and resources are constrained.

As we see this continued flight to quality, landlords need to offer creative solutions to meet the needs of their customers in a more competitive market. In this context, landlords find themselves presented with a unique and rare opportunity to redefine their role and assist tenants in several distinct challenges, particularly those related to the evolving work patterns of their employees. Landlords and tenants alike must embrace innovative approaches to thrive in this new volatile market. Done right, modular design and move-in ready offices can empower small and medium-sized firms to transform their offices into innovative, functional and inspiring workspaces that foster productivity and employee satisfaction. ◆

Rob Naso is Managing Partner and Head of US Asset Management and **Anil Erdem** is Managing Director — Sector Head Office & PropTech at BGO.

Mission: POSSIBLE

The real estate industry can tackle the monumental task of eliminating Scope 3 emissions by defining boundaries, mandating operational guidelines and advocating for change throughout the value chain.

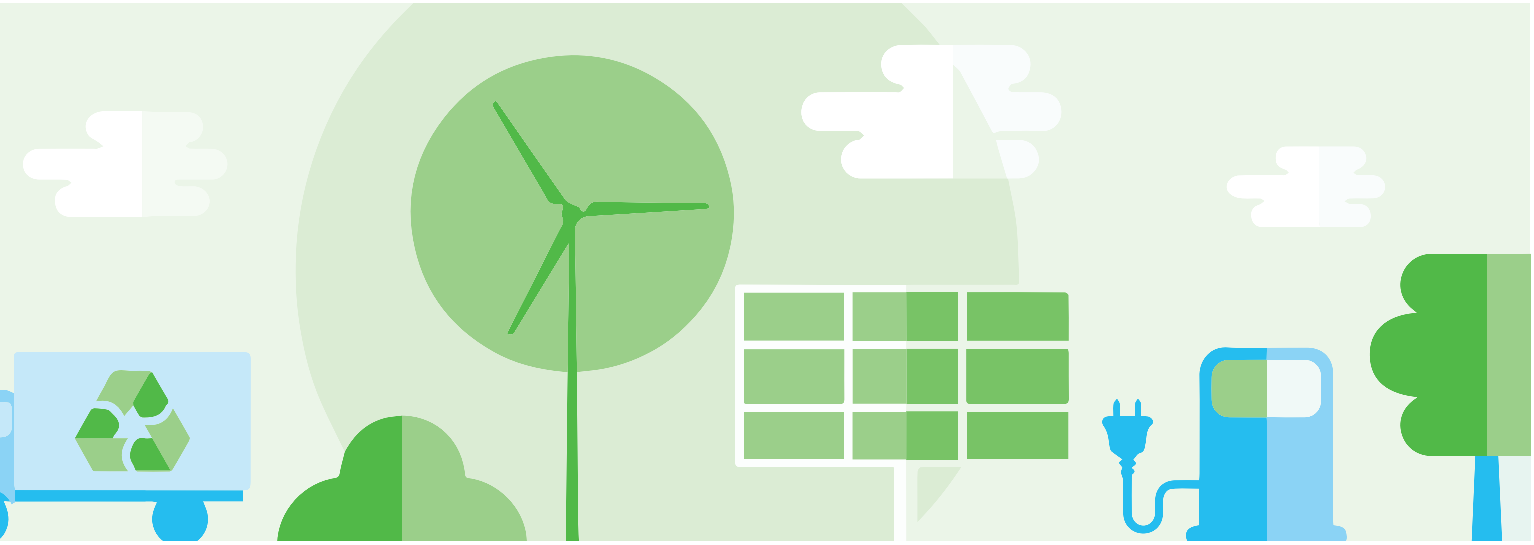
By Warren Loy and Elsa Yih, Lendlease Americas

Any organization can set ambitious sustainability goals, but promises alone are not enough to tackle the enormous challenges ahead of us as we strive to decarbonize the built environment, which represents about 40% of global carbon emissions. As a 1.5°C-aligned company, Lendlease has set a target to reach absolute zero by 2040 for Scope 1, 2 and 3 emissions without the use of offsets.

It is an ambitious goal, as we are focused on eliminating Scope 1, 2 and 3 carbon emissions within Lendlease-defined boundaries, rather than just offsetting them.

While meaningful strides are being made across Scope 1 (the fuel we burn) and 2 (the power we consume), the real challenge for the industry lies in addressing Scope 3 emissions. This is because Scope 3 emissions are generated through indirect activities, both upstream and downstream along the value chain. As a result, they typically account for the majority of an organization's carbon footprint. However, they are difficult to measure and track, partly

[1] Brett Johnson and Katie Miller, Looking at ESG's positive impact on property values, EY, November 11, 2022.



Courtesy of Lendlease

because they are outside of an organization's direct control.

Why go through the time and effort of reaching absolute zero? Eliminating carbon emissions is not only the right thing to do for the planet, but it also makes good business sense. These sustainability initiatives factor into ESG performance and align with expectations — and, increasingly, requirements — held by investors, lenders, local municipalities and other stakeholders, including end users of residential and commercial buildings. A recent EY US study found a clear connection between ESG-focused investment and asset valuation, with green buildings achieving higher rent, lower vacancy and lower operating expenses, translating to reduced risk and increased value.[1]

Because Scope 3 emissions span the entire value chain, organizations must identify partners who are equally committed to eradicating carbon from their own operations. The building and construction sector is reliant on carbon-intensive materials such as steel, cement, aluminum and glass, making it imperative to support the growing number of suppliers who are pioneering new, lower-carbon methods of production.

To chart our own course toward decarbonization and support other organizations looking to do the same, we developed the Lendlease Scope 3 Emissions Protocol to better define a global approach to the measurement and reporting of Scope 3 emissions associated with our real estate investment, development and construction activities.

Despite the challenges associated with achieving absolute zero, there are three steps any organization can take to examine its own operations and create an actionable plan to address Scope 3 emissions: define boundaries, mandate operational guidelines, and advocate for change up and down the value chain.

> “Because Scope 3 emissions span the entire value chain, organizations must identify partners who are equally committed to eradicating carbon from their own operations.”

Define Scope 3 boundaries

Scope 1 and 2 emissions are easier for organizations to address not only because they are in their direct control, but also because the boundaries are more clearly defined. Scope 3, on the other hand, remains ambiguous and, without clear and comprehensive guidance on how to measure and report these emissions, it is difficult to make industry-wide progress in eliminating them.

In developing our Scope 3 Emissions Protocol, Lendlease performed a comprehensive market assessment that included reviewing the GHG Scope 3 Standard, which places value chain emission sources into 15 broad categories, as well as 68 corporate Scope 3 disclosures across Europe, Asia, Australia and the US. The goal was to propose a Scope 3 reporting boundary that could be used to track

Exhibit 1: Lendlease Scope 3 emissions reporting boundaries

Upstream

1. **Purchased goods and services**
2. **Capital goods**
3. **Fuel- and energy-related activities**
4. **Upstream transportation & distribution**
5. **Waste generated in operations**
6. **Business travel**
7. Employee commuting
8. Upstream leased assets

Downstream

9. Downstream transportation & distribution
10. Processing of sold products
11. **Use of sold products**
12. End-of-life treatment of sold products
13. **Downstream leased assets**
14. Franchises
15. Investments

Note: Bolded text indicates the eight categories Lendlease has identified as applicable to our business out of the 15 outlined in the GHG Scope 3 Standard.

ABSOLUTE ZERO BY 2040

Three systemic challenges to eliminating Scope 3 emissions

Representing a large proportion of emissions for organizations or projects, Scope 3 emissions are complex to track, measure and, ultimately, eliminate. Within the real estate industry, there are three systemic challenges to addressing Scope 3 emissions:

1. Decarbonization of harder-to-abate building materials

The backbone of the built environment, materials such as steel, cement, aluminum and glass are also carbon intensive, as the use of fossil fuels is embedded in the production cycle. It will take a significant investment to shift to low- and zero-carbon technologies — a pivot that will require collaboration across disciplines to drive innovation throughout the industry.

2. Lack of digitized Scope 3 emissions data

Currently, Scope 3 emissions data is embedded in various organizations, with inconsistent methods and standards for calculating the different levels of assurance and transparency. The industry could benefit from a data-sharing ecosystem that facilitates the digitized exchange of product-level emissions data across its vast supply chains.

3. Absence of protocols and government guidance

Addressing Scope 3 emissions is in its infancy, so there is virtually no government regulatory or disclosure guidance to inform an organization's roadmap. However, this will come, so businesses need to be proactive and prepared. The current GHG Scope 3 Standard is broad and open to interpretation, resulting in wide disparities across the industry. It is up to bold companies to lead the way.

It is important to understand that Scope 1, 2 and 3 emissions are interconnected: the Scope 1 and 2 emissions of one organization are reported as the Scope 3 emissions of another firm. This means all value chain partners must work together to eliminate carbon emissions tied to the whole building system.

decarbonization progress consistently and comparably across our sector.

We evaluated each of the 15 categories included in the GHG Scope 3 Standard based on its materiality and relevance to business operations and key stakeholders, including investors, analysts and end users. From the 15 categories, we identified eight that were applicable to our business and then developed over 50 subcategories across the eight applicable categories informed by our day-to-day business operations (see Exhibit 1).

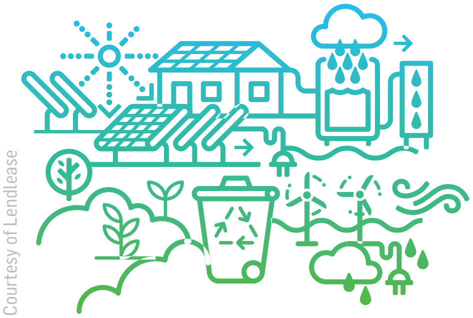
Through a series of workshops, the subcategories were grouped under three classifications — Measure & Disclose, Monitor (and Currently Exclude) and Exclude — to determine which business activities would fall within our Scope 3 reporting boundary. We will periodically review our boundary and are open to adapting our approach as we and others progress on the journey.

For any organization looking to use the GHG Scope 3 Standard as a starting point, the overarching goals should be:

- to identify which of the 15 categories apply to the business as a whole;
- to develop a list of subcategories that align with operations; and
- to determine which subcategories are material, measurable and, ultimately, impactful in reducing emissions.

Mandate operational guidelines

Scope 3 boundaries can be used to establish processes that will inform future business operations. For example, Lendlease has a Mission Zero Roadmap that sets out high-level actions and timeframes to reduce Scope 1, 2 and 3 emissions to absolute zero. In addition, we have established carbon mandates



Courtesy of Lendlease

> Decarbonization is the right thing to do from both a philosophical and financial standpoint as key stakeholders including investors become increasingly climate-conscious and demand greater sustainability performance in all aspects of operations.

across all three business segments that address Scope 1 and 2 emissions in a coordinated and focused way. We are now working though the actions we intend to take as we endeavor to reduce Scope 3 emissions in our Measure & Disclose classification.

Since building materials, which fall under the Purchased Goods and Services category, represent the largest source of Lendlease's Scope 3 emissions, our construction and development businesses will continue to work alongside established industry organizations, such as SteelZero's initiative to accelerate the steel industry's transition to net-zero-carbon emissions. We will also partner with key suppliers capable of providing fully decarbonized building materials.

And with construction materials accounting for 11% of global carbon emissions, there is a clear need for bold action and leadership in this area. We therefore will need a Scope 3 supplier reporting platform that facilitates the secure and transparent exchange of verified product-level emissions data across value chains.

Operational emissions from the electricity and gas used by tenants of our buildings are the second-largest source of Scope 3 emissions. Therefore, our investment management business will target 100% renewable energy use, and all property acquisitions will be compliant with zero-carbon goals.

The key is to establish policies that ensure sustainable business practices for your business and your suppliers and customers.

Advocate for change up and down the value chain

Establishing sustainable business operations that can be adopted up and down the value chain will amplify results and help others establish their own pathways to zero carbon. To that end, Lendlease has open-sourced our Scope 3 Emissions Protocol to offer an industry model to not only drive consistency and transparency in reporting, but also to support others on their journey.

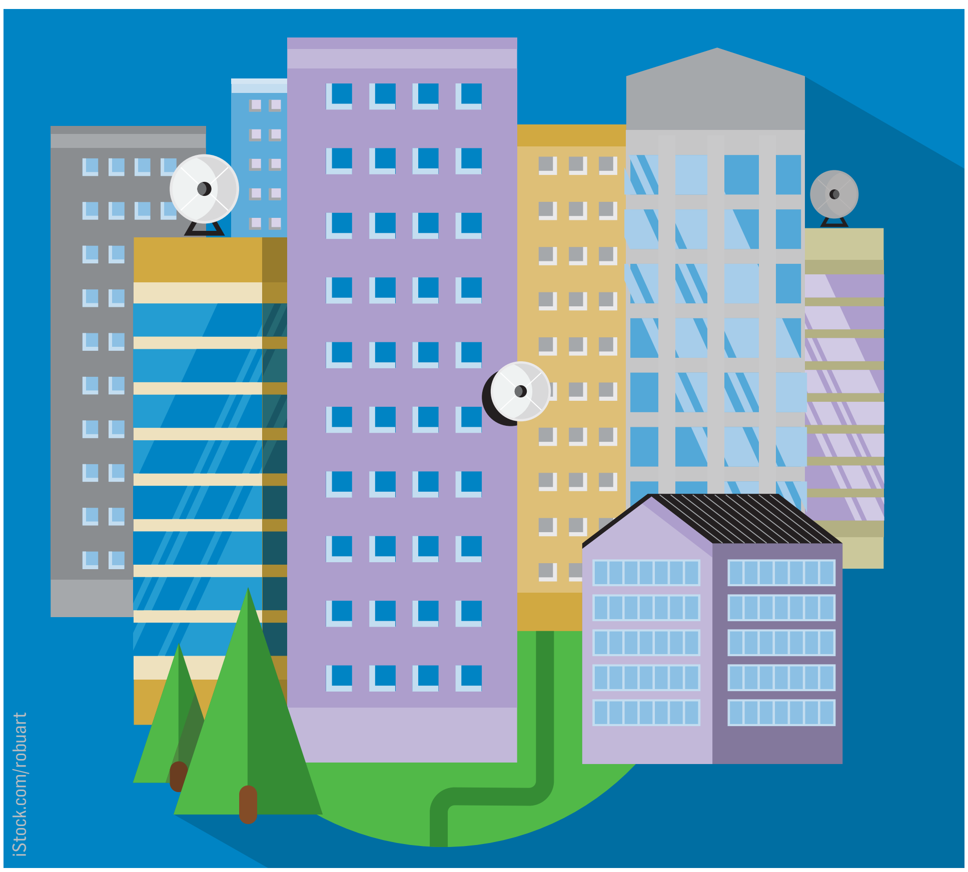
To drive transformation, we are encouraging our clients and industry peers to set their own ambitious Scope 3 emission reduction targets, which will further drive demand for new low- and zero-carbon materials. It is equally important for governments to establish policy frameworks and financial incentives to facilitate industry transformation, and we are actively advocating for that as well. It is inevitable that more cities and states will adopt measures, such as New York City's Local Law 97, to ensure long-term sustainability; real estate companies that have implemented a robust Scope 3 emissions program will likely already be aligned with or exceed new environmental regulations.

As the industry continues to make progress toward decarbonization, it is important to remember that we are still years away from realizing this collective objective. How emissions are tracked today may not make sense tomorrow, particularly as technologies advance and companies develop their own roadmaps that will inform best practices. For this reason, reporting boundaries must be specific enough to be utilized now but also flexible in their approach to tracking and measuring data, in anticipation of changes that will inevitably come.

Even as the methods used to track Scope 3 emissions evolve, one point remains constant: decarbonization is the right thing to do from both a philosophical and financial standpoint as key stakeholders including investors become increasingly climate-conscious and demand greater sustainability performance in all aspects of operations. ◆

Warren Loy is Director of Asset Management and **Elsa Yih** is Associate Portfolio Manager at Lendlease Americas.

The Endurance of US RENTAL housing investments



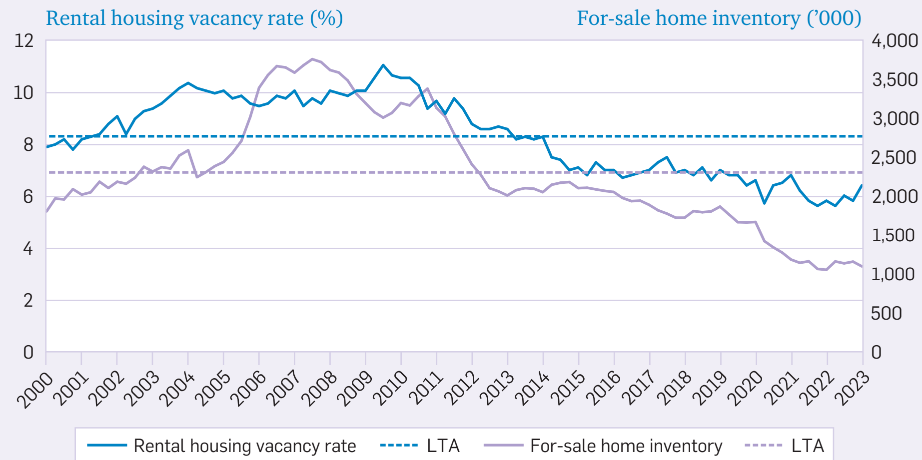
Macroeconomic, demographic and financial factors will continue to buoy US housing rentals, especially in the Sun Belt and suburbs, making them an attractive proposition for investors.

By Tim Wang & Julia Laumont, Clarion Partners

[1] Rosen Consulting Group, Housing is Critical Infrastructure: Social and Economic Benefits of Building More Housing, Rosen Consulting Group, June 2021.

Over the past decade, US multifamily has been among the most highly sought-after sectors by institutional real estate investors due to its necessity characteristic, the underlying strength of property-level fundamentals and high risk-adjusted total returns. It has become an integral part of commercial real estate investment portfolios with a weighting of 29.2% in the NCREIF Open-end Diversified Core Equity Index (ODCE) in Q1 2023. Clarion Partners believes that well-located, high-quality rental housing will continue to be a strong performer over the long term due to a variety of macroeconomic, demographic and financial factors.

Exhibit 1: Low availability of all forms of housing



Note: Rental housing includes non-institutional and institutional-quality multifamily and single-family rental houses.
Source: US Census Bureau, Moody's Analytics, Clarion Partners Investment Research, Q1 2023.

Macroeconomic drivers sustaining demand

We are optimistic about the outlook for US multifamily in 2023 and beyond due to two macroeconomic factors:

1. The national housing shortage

Following a decade of underbuilding, there continues to be a national housing shortage. Both the US for-sale housing inventory and rental housing vacancy rate have remained near a two-decade low in recent years (see Exhibit 1). Based on the difference between household formation and housing completions, we estimate a shortfall of 3.2 million housing units, which includes 1.2 million owner households and 2 million renter households; this is consistent with Realtor.com's estimated shortages ranging between 2.5 million and 3.7 million housing units.

This approximation jumps to 6.8 million when also taking into account the loss of existing units due to demolition, natural disasters or functional obsolescence.[1] The deficit is even more pronounced in the low and middle markets, as much of the new construction targets the high-end segment.

2. Favorable demographics

The increasingly onerous cost of owning a home has led many in all age groups to remain in the renter cohort, sometimes by choice. While the overall US homeownership rate hovers near the long-term average, the rate among first-time buyers is at an historical low. It is also well below the US average in the Northeast and West regions, especially in major markets where the cost of living is very high.

While more millennials (72 million strong) are buying homes, Gen Z (70 million), which has started to enter the workforce, will remain in the renter cohort for the next decade or so. Furthermore, more Gen X-ers and Baby Boomers (138 million combined), traditionally homeowners, are choosing to rent for lifestyle reasons.

> "Following a decade of underbuilding, there continues to be a national housing shortage."

Additional key factors likely to sustain future rental housing fundamentals include strong ongoing job and wage growth, elevated construction and replacement costs, and tighter lending conditions for new construction, which will likely suppress future new supply.

Financial headwinds

However, several acute for-sale housing affordability challenge persists.

US for-sale housing affordability is at an all-time low

In 2022, the median US home price climbed to a new high, but US for-sale

[2] Joint Center for Housing Studies at Harvard University, The State of the Nation's Housing 2023, Joint Center for Housing Studies at Harvard University, June 2023.

housing affordability reached an all-time low (see Exhibit 2). Even as residential mortgage rates surged to the highest point since 2002, home prices have remained near record levels across many US markets, and financing costs to purchase have more than doubled in the last year (see Exhibit 2). This has created steady demand for professionally managed rental housing across a wide range of US metros.

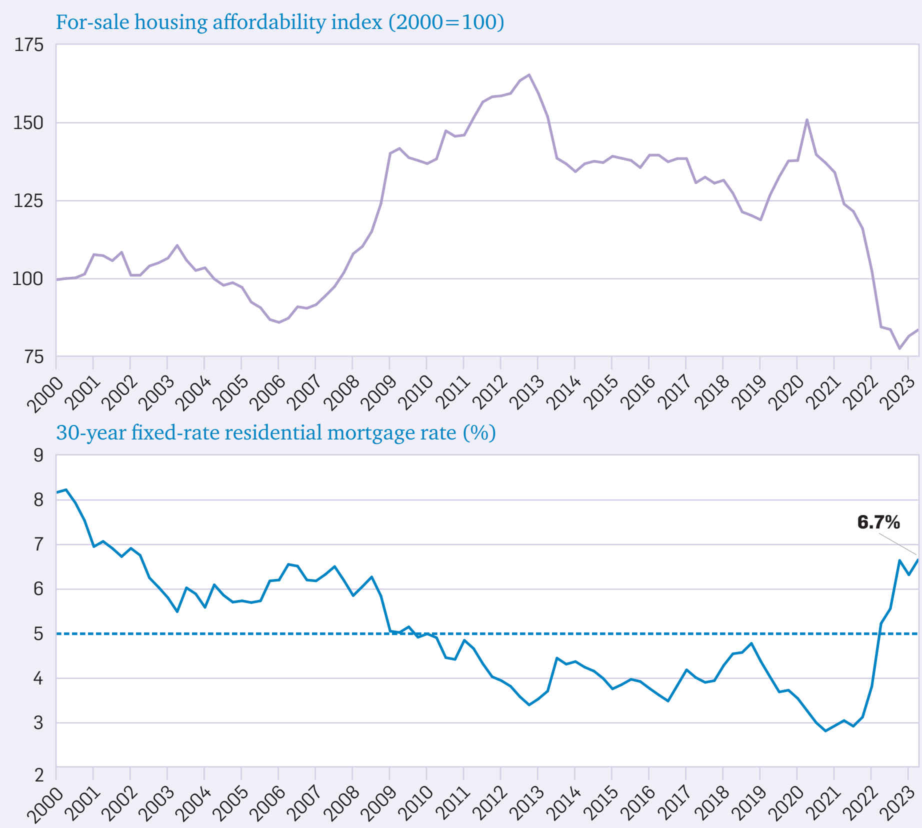
US for-sale housing price surge

Over the past decade, the US median home price has almost doubled, from $195,000 to $383,000. Housing prices in many secondary markets in the South and West regions approached new highs, with a few rivalling the level of some high-cost major markets. However, overall home prices are still significantly lower in much of the Sun Belt. In this time period, the national average income grew by 40%.

Many US counties report a home price above the national median

Of the 50 largest metropolitan statistical areas, 30 now have median home prices above that of the nation, which has climbed from 24 in 2013. This has led to a greater demand for high-quality Class A and B rental housing in more metros.

Exhibit 2: US for-sale housing affordability has worsened



Note: For-sale housing affordability index based on Moody's Analytics model that factors in three variables: 30-year fixed rate mortgage commitment rate — national, FHFA purchase-only home price index and median household income.
Source: Moody's Analytics, Clarion Partners Investment Research, June 2023.

Rise in cost-burdened households

In recent years, there has been a rise in total cost-burdened households, which pay more than 30% of their monthly income on housing costs. Of 130 million US households, over 30% are now cost-burdened, representing the highest rate on record. The share of severely cost burdened households — those paying over 50% of monthly income on housing costs — is significant for both renter and owner households.[2]

Ongoing shift to the Sun Belt and suburbs

Higher for-sale housing costs have led to greater residential mobility and shifted the geography of housing demand. Recent domestic migration and population growth trends have continued to heavily favor the Sun Belt and suburbs, which has had a significant impact on CRE demand overall in these areas.

Sun Belt lure

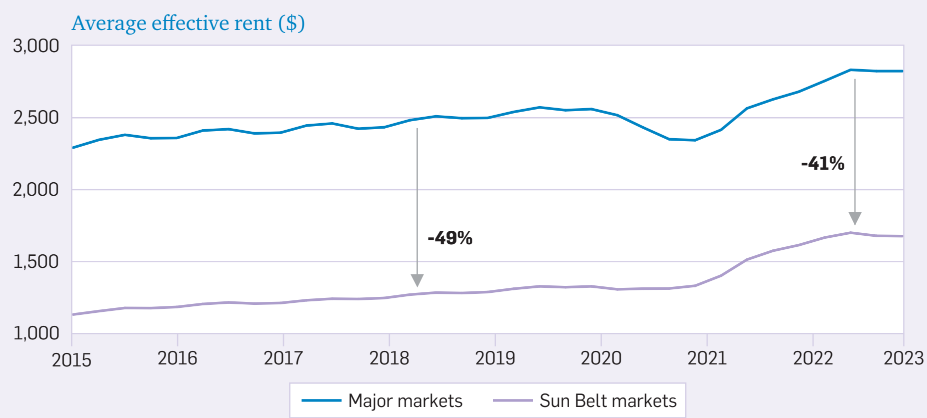
During the pandemic, Sun Belt markets saw a surge in net in-migration, often at the expense of major markets. Looking ahead, the Sun Belt boom is expected to continue given the relative cost of living, quality of life and job opportunity. Overall, the Sun Belt markets' rental housing costs still offer a sizable discount relative to the six major markets at about 40% (see Exhibit 3). Over the next five years, the top markets for population and employment growth are largely forecast to be in Texas, Florida, North Carolina, Nevada, Utah, Arizona and Tennessee (see Exhibit 4).

Suburban boom

With a robust inflow of Gen Z and millennials into the central business districts (CBDs) of major markets, we

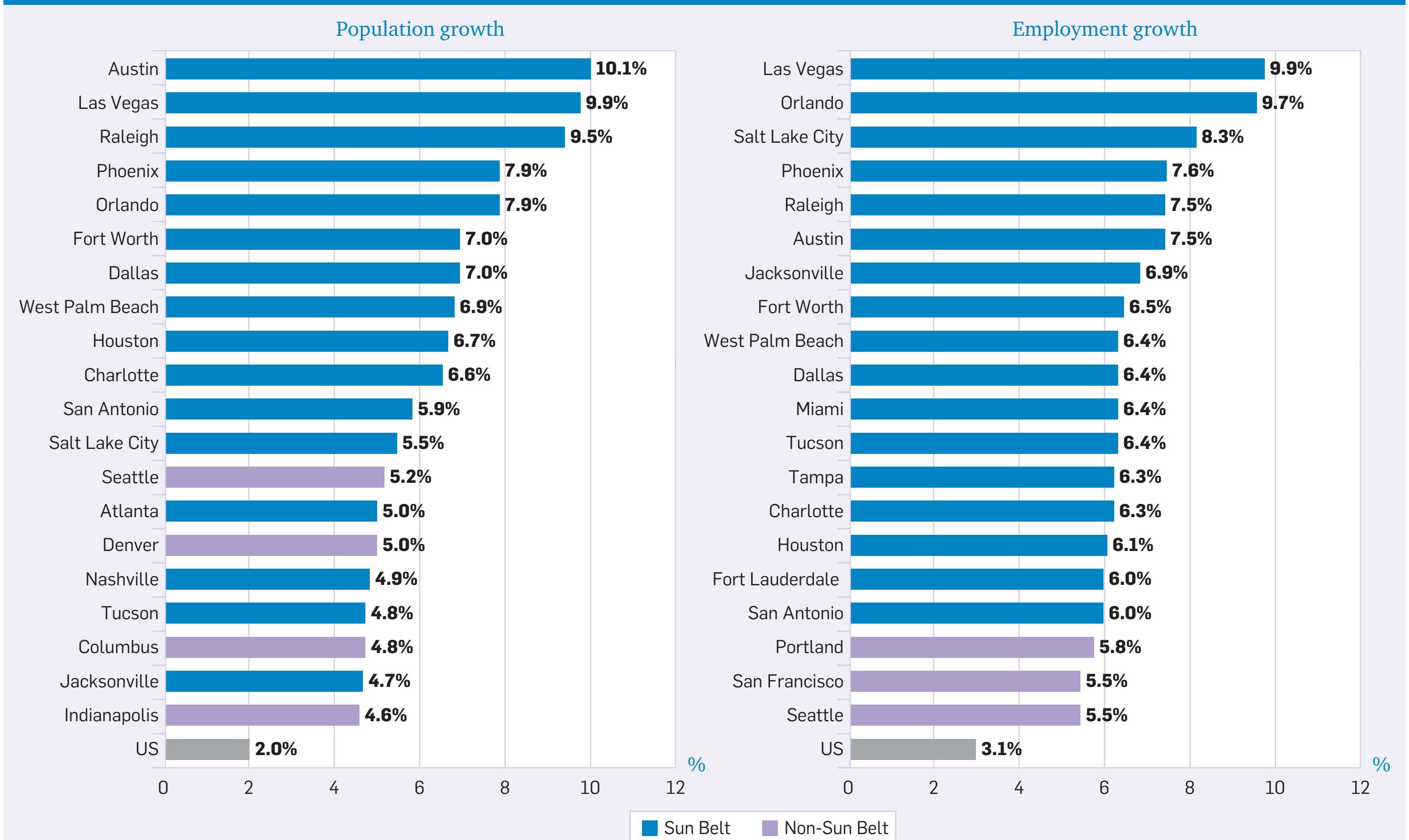
> Looking ahead, the Sun Belt boom is expected to continue given the relative cost of living, quality of life and job opportunity.

Exhibit 3: Sun Belt apartments offer a 40% discount to major markets



Note: Six major markets include New York, Boston, San Francisco, Los Angeles, Washington DC and Chicago.
Sun Belt markets include Miami, West Palm Beach, Nashville, Dallas, Austin, Charlotte, Raleigh, Tampa, Jacksonville, Phoenix, Orlando, Fort Worth, Houston, Salt Lake City and Las Vegas.
Source: CBRE-EA, Q1 2023.

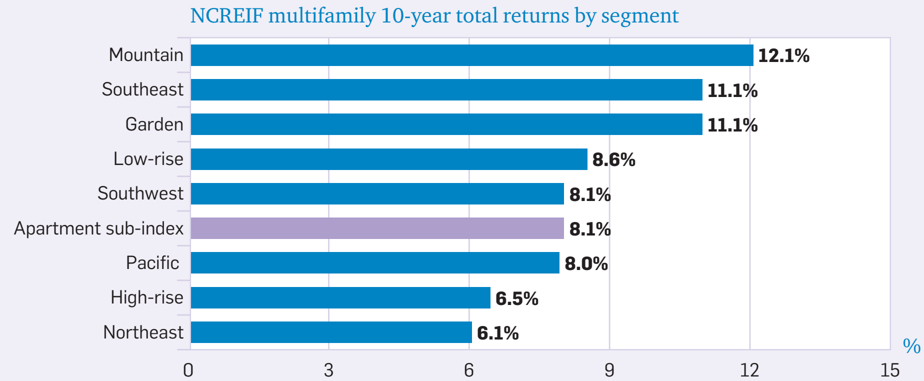
Exhibit 4: Sun Belt markets are strongest for total population and job growth (2023F–2028F)



Note: Calculation used forecast data from Q2 2022 to Q4 2027.
Source: Moody's Analytics, Clarion Partners Investment Research, Q1 2023.

> “ Multifamily investments can potentially serve as a hedge against rising inflation. ”

Exhibit 5: Mountain, Southeast and garden apartments have performed strongly



Source: NCREIF Property Index, Clarion Partners Investment Research, Q1 2023.

expect steady demand there as well in the years ahead. However, as millennials reach middle age, cost pressures mount and growth industries are more diversified by region, we expect strong rent growth performance in the urban fringe and suburbs to persist. From 2015 to 2023, the average annual rent growth in the suburbs was double that of urban areas as more young adults migrated to the suburbs to have families enjoy more living space and access public schools.

Strong multifamily investment performance

Over the past decade, the NCREIF Property Index multifamily subindex (stabilized and unlevered) has performed very well (see Exhibit 5). The short- and long-term total returns have also indicated strong outperformance in the Mountain, Southeast and Southwest regions, along with the two lower-density multifamily formats — garden-style and low-rise apartments. Given the recent population, migration and job growth trends, we believe that commercial real estate investors should align investment strategies accordingly in the future.

Going forward, we believe there are several other considerations to bear in mind as a multifamily investor:

- *Political risks* (i.e., rent control, environmental risks and policies);
- *High-growth industry clusters* (i.e., tech, life sciences and health care);
- *High cost of living,* including food, electricity, transportation and caregiving; and,
- *Endurance of remote and hybrid work;* physical office occupancy now averages about 50% of pre-Covid levels, which may influence future living arrangements.

New supply levels in 2022 and 2023 may increase the historically low rental housing vacancy rate. We expect rental demand to remain strong given the acute housing shortage theme.

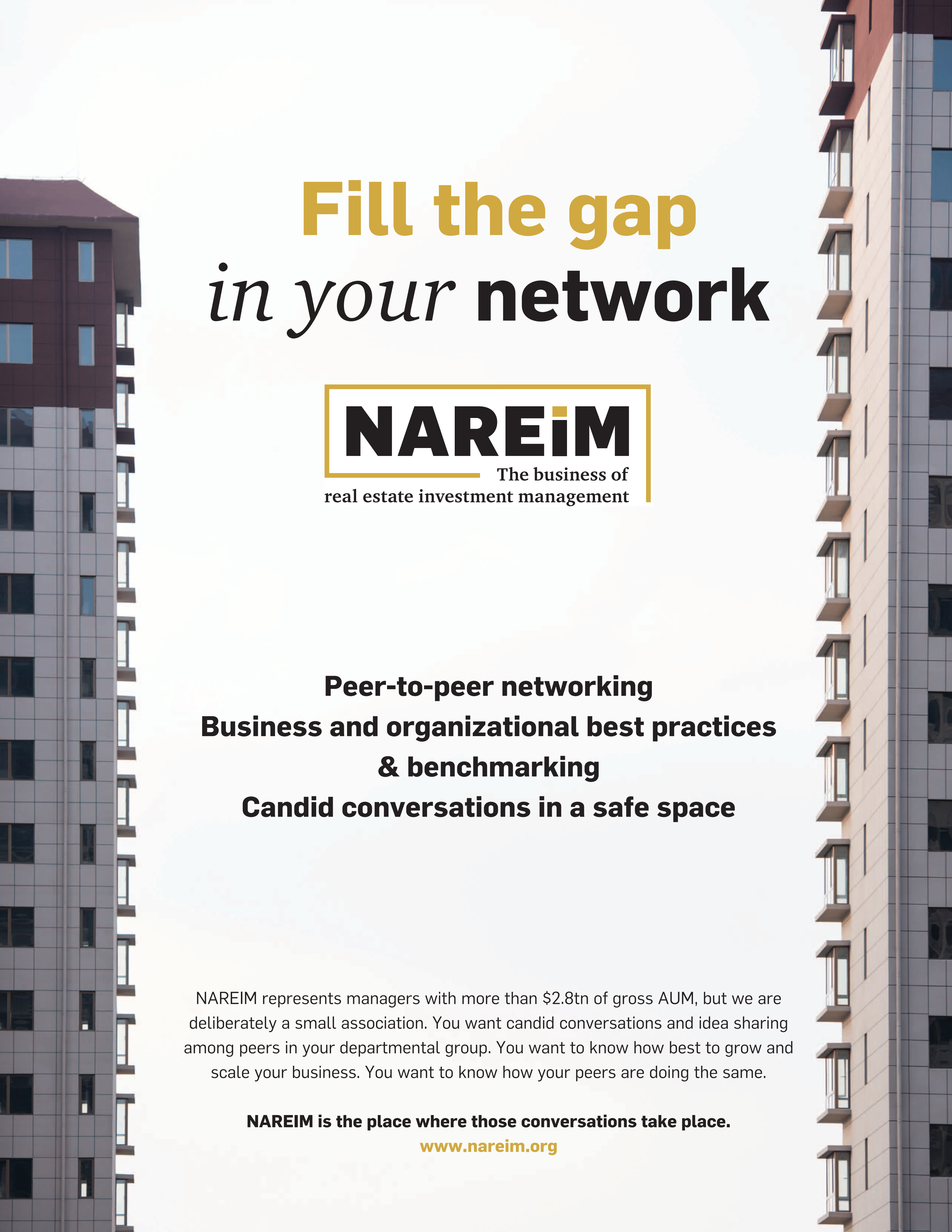
We are cautiously optimistic about the long-term outlook for professionally managed rental housing income growth and appreciation given the worsening affordability in the for-sale housing market. Last but not least, landlords can adjust rent more quickly than in other sectors. Therefore, multifamily investments can potentially serve as a hedge against rising inflation, a desirable characteristic in today’s reflationary environment.

Investment focus

Over the past decade, US rental housing fundamentals have remained very healthy overall. US multifamily rents are at all-time highs, and most markets report vacancy rates under 5%. Furthermore, all major markets reported positive rent growth in 2022. Clarion Partners is focused on the following acquisition and development investment strategies:

- Top submarkets of Sun Belt metros with a concentration of high-growth industries, strong population growth and a low cost of living;
- High-quality class A and B apartments in top suburban and urban fringe submarkets of major and secondary markets; and,
- Targeting renters by choice in top lifestyle markets/submarkets. ◆

Tim Wang is Managing Director and Head of Investment Research, and **Julia Laumont** is Vice President of Investment Research at Clarion Partners.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Towards sustainable buildings

Strong tailwinds and significant benefits are necessitating the drive towards more sustainable buildings. Companies can adopt several strategies, ranging from installing rooftop solar systems to better mobility solutions.

By Suzanne Fallender, Prologis

Logistics real estate plays a crucial role in supporting economic development. The sector's strategic distribution centers make the global supply chain more efficient and resilient. Every day, it helps businesses scale and streamline their supply chains.

According to the World Green Building Council, the built environment accounts for nearly 40% of global carbon emissions. As such, we as participants in the real estate sector have a responsibility to drive action not just within our buildings, but also across our industry and with our customers. We can and should transition towards more sustainable building strategies to mitigate this impact.

In June 2022, Prologis, the world's largest logistics real estate company with a 1.2 billion square foot industrial portfolio, announced a goal to achieve net-zero emissions across our value chain by 2040. This goal is grounded in both historical and projected emissions data, and includes a focus on the required transition to renewable energy as well as on the significant innovation in building materials that will be needed if Prologis (or any real estate company) is to achieve net zero.

Prologis' net-zero progress report

Prologis' net-zero goal includes emissions across the company's operations and value chain. This meets the requirements of the Science Based Targets initiative's net-zero standard: Companies must commit to a 90% reduction in emissions, including value chain emissions that are beyond the company's control. (As an example, value chain emissions in real estate include emissions from tenant energy use, which is something the landlord cannot control.)

At year-end 2022, Prologis reported the following progress towards our net-zero goal:

- Reached 405 megawatts of on-site solar + energy storage, keeping us on track to achieve our goal of 1 GW by 2025.
- Purchased carbon offsets for approximately 40% of our 2022 construction-related emissions, keeping us on track to achieve our goal of offsetting 100% of our annual construction-related emissions by 2025.
- Made several key operational changes, including requiring GHG (greenhouse gas) lifecycle assessments, solar-ready rooftops and electric vehicle (EV)-charging ready infrastructure in all new buildings.
- Finally, in terms of innovation, piloted the use of vertical solar, which expands generation capacity, and self-healing concrete.

Setting interim goals and reporting progress is an important way to demonstrate a serious commitment to achieving net zero.

Drivers of change

Several significant tailwinds are helping to drive the realization of our goal.

Market demand

There is increasing demand from customers and investors for sustainable buildings that have a lower carbon impact. Customers can demonstrate their commitment with a sustainable building certification such as LEED. The local community benefits from sustainable features such as rooftop solar (which is available to the local electrical grid) and electric vehicle (EV) charging facilities for both fleets and employees. Investors see the strategic long-term benefits of sustainable buildings and, as a result, are holding companies accountable for executing on their sustainable building strategies.

Regulation

Local, state and national governments are implementing stricter regulations and building codes to encourage or require more sustainable construction practices. These include regulations pertaining to embodied carbon (emissions related to the construction of a building) and operational carbon (emissions related to the operation of a building). The practical impact is that in many markets, our industry will soon need to use lower-carbon concrete and steel and include additional emissions-reduction features, such as heat pumps.

Reputation

A company that has demonstrated it has the ability and know-how to build more sustainably benefits from a stronger reputation both within the construction sector and in the community. Delivering more sustainable buildings can help meet increasing stakeholder expectations.

Cost savings

Sustainable buildings can be less expensive to operate. For example, rooftop solar provides affordable zero-carbon energy, and building features such as improved insulation, cool roofs, LED lighting and electric heat pumps (instead of natural gas-fueled HVAC systems) can result in both short- and long-term cost savings.

For the greater good

While these tailwinds provide momentum and motivation, the benefits of sustainable building strategies are also significant. Climate and sustainability strategies can and should be driven by customers. By investing in sustainability and greenhouse gas (GHG) reduction, companies in turn can help their customers reduce their impact and their emissions.

On-site solar

Rooftop solar systems and energy storage can generate and store energy directly for customers, as well as for the surrounding community. This reduces costs for customers and community members, depending on whether the solar is behind the meter (for customers only) or in front of the meter (where it can be used as a resource by the local utility.) At Prologis, five of our 25 largest customers receive behind the meter energy. In 2022, we also announced plans to install more than 5 MW of solar panels on existing buildings in Southern California, then sell this renewable electricity to the local utility and provide renewable energy for communities that would not otherwise have access.

Mobility

As mentioned above, regulation is pushing many logistics customers to transition their fleets to zero-emissions vehicles. A comprehensive mobility strategy can include fleet electrification, workplace charging, temporary backup power and other lower-emissions technologies such as hydrogen. When customers are able to charge their EV fleets at logistics facilities, they minimize route deviations (which would be needed if they had to charge elsewhere) and make better use of dwell time (when a vehicle is loading or unloading). Customers also can make progress toward their own GHG emissions goals.

Operational efficiency

A range of features can improve the operational efficiency of a building. These include:

- *LED lighting* helps customers reduce their lighting-related energy use by 60%–80% while also enjoying the benefits of LEDs: improved safety, productivity and employee satisfaction.
- *Cool roofs* can reduce summertime energy use in many locations.
- *Sensor-controlled smart meters* (linked to a mobile app) help customers better manage their utility consumption, analyze their facility operations (which can improve energy efficiency and reduce costs), and even control temperature, humidity and water pressure levels.
- *Eliminating emissions-intensive natural gas-fueled heating systems* is one of the most impactful ways to reduce a building's operational GHG emissions.

Design standards

Updating building design standards by requiring features such as LED lighting, solar-ready roofs, EV charging-ready parking lots, and electric (instead of natural gas) heating and cooling systems creates enterprise-wide benefits. Design standards can protect a company against accusations of 'example washing' (using a single building to demonstrate the entire organization's commitment). They also make it easier to purchase at scale. Design standards can also boost a company's reputation among key stakeholders.

Lower-carbon construction materials

Over the next two to five years, a wide range of lower-carbon construction materials will become increasingly available and cost-competitive. In fact, many options are already available today and we are testing them to see how far we can move the needle. For example, in Brampton, Ontario we are building a distribution center using mass timber to replace the steel skeleton structure and low-carbon composite wall paneling as a concrete alternative. By using mass timber instead of steel or any one of the lower-carbon concretes available today, real estate companies can maintain (or improve) the resilience and quality of their buildings while also reducing carbon emissions related to construction.

Conclusion

Sustainable building strategies address a range of environmental challenges and can help companies meet high-profile GHG emissions goals. By implementing the strategies outlined above, companies across our industry can meet market (and investor) demand, support local communities, enhance their reputations and provide a wide range of benefits to their customers.

With focus, determination and a pinch of optimism, we can play a significant role in building more sustainable societies for future generations. ◆

Suzanne Fallender is Vice President, Global ESG at Prologis.

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INSTITUTIONAL REAL ESTATE, INC.

Using PATTERN recognition

When underwriting properties in inefficient markets, having good quantitative data sources and networks, as well as a developed qualitative intuition, can help to establish investment conviction.

By Joe Muratore and Ryan Swehla,
Graceada Partners

Pattern recognition is a fundamental aspect of our firm's real estate investment strategy. This concept couples the science of quantitative data analysis with the art of qualitative intuition developed from years of investing experience. This approach allows us to evaluate a significant number of opportunities using a matrix of key metrics that have proven over time to be indicative of successful investments — particularly in the secondary and tertiary markets in which we invest.

Once we have identified a potential investment that meets our quantitative criteria, we evaluate the opportunity from a variety of qualitative aspects through an underwriting process we have established. Pattern recognition ensures that we assess each deal consistently through the same lens and provides a structure which allows the truly exceptional opportunities to stand out (see Exhibit 1). This methodology has resulted in us being able to achieve consistent, outsized returns for our investors.

The science of data-driven analysis

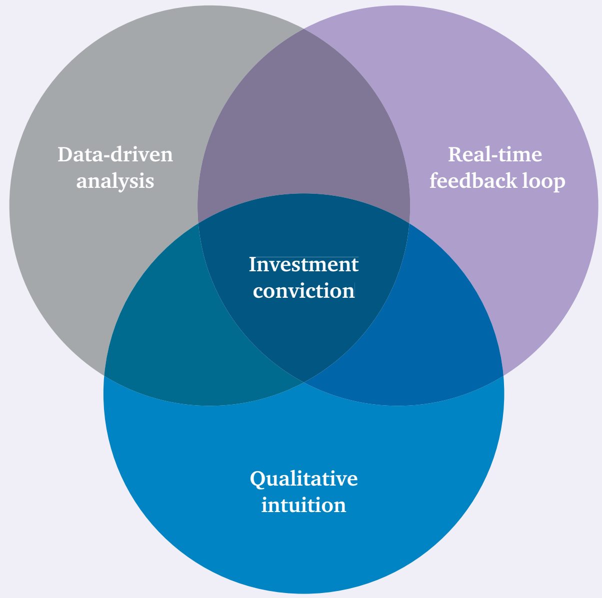
Our firm focuses on value-add investing in secondary and tertiary markets, which is distinctly different from investing in primary markets or pursuing ground-up development. Secondary and tertiary markets are markets that, respectively, have a population of under 4,000,000 and 2,000,000 in the metropolitan area. Over time, we have identified a specific set of data points that are critical to our proprietary process of screening potential opportunities.

Some of the data points we use when screening secondary and tertiary opportunities include long-term population growth, current and trended market occupancy rate, purchase price compared to replacement cost, affordability, quality of life score, total purchase price, new supply coming online, and in-place rents compared to market rents, just to name a few.

All of this ultimately contributes to what we view as the most critical data point: return metrics. We typically underwrite investments to achieve a high-teens to low-twenties IRR and an equity multiple ranging between 2.0x and 2.4x.

The secondary and tertiary markets of the Western United States in which we operate are inefficient; by definition, reliable market and asset information is not as readily available as in primary markets. Consequently, our firm gathers data from a variety of sources, which allows our analysts to compare information and hone in on what we believe to be the most accurate, current data.

Exhibit 1: A systematic approach using pattern recognition in investment decision-making



We utilize third-party data providers such as CoStar, Greenstreet, LoopNet and Yardi Matrix to supplement the data we collect directly. Utilizing several sources of information provides multiple perspectives (both regional and national) and enables our team to identify trends or inconsistencies, allowing us to more precisely underwrite potential investments.

Another valuable source of data comes from the vast network of brokers and advisors we have built over the past 15 years across the markets in which we invest. We are able to contact our broker network whenever we need additional perspective or precise details on specific data points. One of the most important data points is total purchase price.

Consequently, we focus on purchasing from off-market sources in a non-bidded environment (approximately 95% of our purchases are such). Our broker relationships are invaluable for this. Since we are one of the most active real estate investors in the markets in which we operate, we are typically aware of new opportunities before they come to market.

A real-time feedback loop

While traditional data sources and service providers are an important part of the data-driven process, two other sources are critical when operating in inefficient secondary and tertiary markets.

One source of information comes from the sheer volume of potential investments that we underwrite within a given market. In the markets in which we operate, we are typically one of the most active market participants. This constant sampling of real-time data enables us to keep our finger on the pulse of that market. This information is invaluable and ensures our data does not become stale — a problem to which third-party data sources can be susceptible.

Case study: The Edge Apartments

In 2020, we began to research an off-market 196-unit apartment complex called The Edge Apartments in Modesto, California. This property was an off-market purchase and scored well on a number of quantitative measures.

The property was located in a higher income neighborhood while in-place rent was 32% below market, giving it a rent-to-income ratio of 27%. The data we collected showed that the market had a 2.7% vacancy rate and the rent average was $1,300. The purchase price was at 62% of replacement cost. When we visited the property, we saw a high-quality apartment complex with a good aesthetics located in a desirable neighborhood near a sought-after elementary school.

But the property was lacking good management and key improvements. We owned other multifamily assets in this market, so we had a high degree of conviction around achievable rent. Through this comprehensive analysis, we believed that the property could support rents of $1,500 on average.

Relying on both our hard-data backbone and our real estate intuition, we purchased the property and began the value-add process. We carried out several substantial improvements, including complete clubhouse, leasing office, laundry room and fitness center renovations, as well as landscaping and other cosmetic upgrades. In the end, we were able to increase the average rent to $1,650 and we are currently in the process of exiting the asset at close to 2.0x in 31 months.

The second essential data source is our actual execution within the market. As a vertically integrated operator, our in-house property and construction management professionals provide instantaneous feedback on critical underwriting data points such as true market rent, current renovation costs and leasing velocity.

The art of qualitative intuition

Once the quantitative process has identified opportunities that meet our requirements, we begin the qualitative process of conceptualizing the value-add process for the specific property. This includes visiting sites, interviewing tenants, and evaluating the general feel of the property, neighborhood and submarket. We seek to answer three overarching questions:

1. What is the current state of the asset?
2. What is its potential for value optimization and addition?
3. What is our anticipated timeline for achieving our objectives?

Property visits bring clarity to the conceptualizations we have developed through numerical analysis. These firsthand inspections allow us to assess the property's condition, the caliber of current tenants, the market rent for the property and the potential for increasing value. Through years of on-site visits, we have gained the ability to look critically at a property during a visit and to use it to develop conviction either towards or away from a deal. Broadly speaking, a strong investment is one that has sound data to prove its worth and resonates with our internal instincts.

Our intuition for recognizing patterns in real estate investments stems in part from our experience as both real estate investors and managers.

> “Pattern recognition through quantitative and qualitative analysis forms a solid foundation for our real estate investment strategy.”

For example, having the experience of managing several multifamily properties in a given market helps us to better understand as we seek to acquire another, enabling us to execute investments with greater confidence.

Conclusion

Pattern recognition through quantitative and qualitative analysis forms a solid foundation for our real estate investment strategy. By first systematically sampling and analyzing potential investments, we ensure a disciplined and objective approach to investing. By trusting our well-developed intuition and interacting with the market in an organic way, we discover great opportunities and avoid the pitfalls of pure data abstraction. Combined, this methodology uncovers and helps us execute on attractive investment opportunities, ultimately seeking to generate outsized and repeatable results. ◆

Editor's note: This article was expanded from an episode of Durable Value podcast hosted by Joe Muratore and Ryan Swehla.

Joe Muratore and **Ryan Swehla** are Co-CEOs and Co-founders of Graceada Partners.

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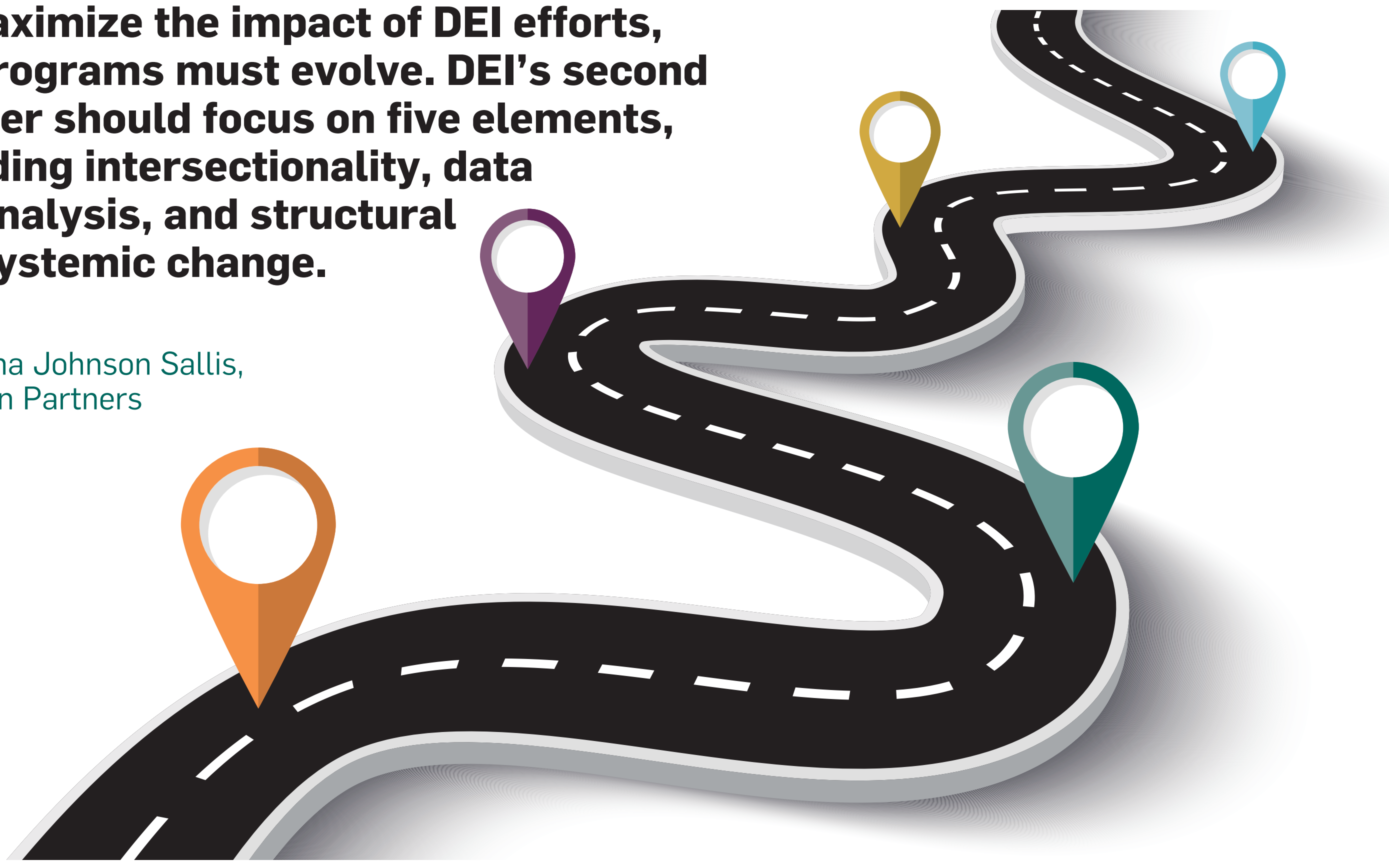
INSTITUTIONAL REAL ESTATE, INC.

DEI 2.0: *a* roadmap *for* lasting change

To maximize the impact of DEI efforts, DEI programs must evolve. DEI's second chapter should focus on five elements, including intersectionality, data and analysis, and structural and systemic change.



By Dionna Johnson Sallis, Ferguson Partners

[1] Roy Maurer, New DE&I roles spike after racial justice protests, SHRM, August 6, 2020.
[2] Global Real Estate DEI Survey 2022, NAREIM and Ferguson Partners.

The 2020 murders of George Floyd and Breonna Taylor were a catalyst for a reexamination of DEI efforts across our world thus far. Following these grim events, which occurred during the height of the Covid-19 pandemic, historically homogenous industries like commercial real estate (CRE) reflected upon their own DEI efforts, realizing that to create change they needed to increase their DEI commitments and investments.

Over the past three years, efforts made by the CRE industry to become more diverse and inclusive have resulted in an increased focus on hiring diverse talent, as well as training and development for diverse employees. Companies increased their diverse recruiting efforts, created DEI committees and promoted their awareness of existing, systemic structural disparities, publicly signaling commitments to do better.[1]

This progress is evidenced by our Global Real Estate DEI Survey 2022, wherein over 95% of respondents indicated that their organizations were actively working to address DEI-related issues. As part of their efforts to redress DEI-related issues, they have begun mobilizing formal DEI programs and crafting DEI-specific initiatives and policies to improve the representation of women and other underrepresented groups across their organizations.[2]

However, there remain significant areas in which to further advance DEI efforts. Three years ago, DEI programs focused on attracting diverse talent. Now, the focus should be on how to create work cultures that foster a sense of belonging and retain the diverse talent that we want to attract. Many DEI committees that were established three years ago have operated as social clubs with no real mission or goals in place. Now, the best-in-class DEI committees need to be grounded in their company's values and vision, and these committees must have the full participation and support of their executive leadership.

DEI 2.0 is the removal of box-checking activities and the implementation of measurable efforts that can drive actual and lasting positive change for employees and external stakeholders. Here are some ways CRE organizations can advance DEI efforts to the next level.

Forging a path to DEI 2.0

Organizational change begins with establishing the right set of goals and priorities and continues with ongoing reflection and evaluation of progress against those goals.

While initial DEI programs provided a promising future for firms making DEI a much-needed priority, many of these efforts have largely proven inadequate for organizations working toward lasting change.

DEI 2.0 must evolve so that newly formed DEI programs deliver on the promise of its now-antiquated predecessor. Specifically, DEI 2.0 must provide organizations with the critical capabilities to consistently acquire, develop and retain diverse talent. Moreover, DEI 2.0 must ensure that these professionals, across all levels of the firm, are equipped with the required resources to drive future success (see Exhibit 1).

The crux of the matter is that it is necessary to evolve DEI programs to maximize the impact of DEI efforts. If done correctly, organizations will address systematic biases to foster an inclusive environment and to yield high-achieving equitable outcomes.

To begin, organizations should analyze the effectiveness of current DEI initiatives and results against best-in-class DEI outcomes realized by peers and recognized DEI leaders. From there, identify gaps and reestablish goals and priorities for DEI 2.0. Through thoughtful reflection of progress, an organization may find that it needs to expand personal development and mentorship opportunities available to employees and/or to continue to improve diverse recruiting.

Exhibit 1: Comparing DEI 1.0 and DEI 2.0

DEI 1.0	DEI 2.0 enhancement
Increased diverse candidate pipelines	…focusing on retention and promotion of acquired diverse talent by fostering an inclusive work environment
Creation of DEI committees and employee resource groups	…prioritizing committee activity to achieve overall company goals under executive leader sponsorship
HR professionals leading DEI initiatives	…hiring a leader to solely focus on DEI strategy that will cascade throughout entire organization
Reactive campaign commitments	…shifting beyond lip-service to restructure organizational culture
Hiring chief diversity officers and DEI practitioners	…staying committed and actively supporting the DEI leaders that have been hired

[3] Paul Gompers and Silpa Kovvali, The Other Diversity Dividend, *Harvard Business Review*, July–August 2018.

Overview of DEI

"How did we get here?" can be answered by a brief historical perspective. The Civil Rights Act of 1964, a legislative edict that addresses various discriminatory practices, was enacted to ensure that all individuals — regardless of identity — have equal access to opportunities and resources across society. It is the genesis of the contemporary diversity, equity and inclusion movement, empowering institutions to pledge allegiance to the eradication of discriminatory practices within the workforce.

Leveraging the spirit of the Civil Rights Movement of the 1960s, it is imperative that professionals remain engaged in the broader discussion of the how, what and why about diversity, equity and inclusion. In many cases, organizations can benefit from breaking apart the acronym, DEI, and focus on the true meaning of each word.

Studies have shown that more diverse organizations make better decisions and investments.[3] A diverse company without an inclusive culture or equitable best practices does not promote an organization's long-term goals or profitability. Steadfast commitment to DEI's broader discussion will empower a collective voice that can answer, in unison, the question of "How did we get here?"

This thoughtful reflection is best accomplished when organizations consider their workforce in totality and solicit feedback from all employee levels. In Ferguson Partners' experience, balancing this feedback against current program results and stated goals is incredibly revealing and brings to life what the objectives of an organization's DEI 2.0 program should be. Establishing the future roadmap and priorities becomes clear and is supported with concrete data and actionable insight.

Five elements of DEI 2.0

Evolving a DEI program is not a one and done activity. Programs will continue to build upon their achievements and learn from their shortcomings. As we look at DEI 2.0, the following five elements are important program progressions to advance DEI efforts and impact.

Intersectionality

A key tenet of DEI 2.0 is recognizing that individuals have multiple dimensions of identity, such as race, gender, age, sexual orientation, disability and socioeconomic status. Likewise, team members come with a set of less-visible characteristics — such as neuro-disabilities, religion and sexual orientation — that also inform their identities. Recognizing this can help leaders and colleagues to effectively, and cognitively, empathize with the unique challenges and experiences particular to individuals belonging to one or more marginalized groups. This intersectional perspective can help organizations to develop a wider variety of DEI initiatives that recognize individuals and their differences, both seen and unseen.

Data and analysis

The DEI 2.0 roadmap should allow dedicated professionals to analyze data that identifies disparities, biases and areas for improvement. Regularly tracking key metrics, and conducting assessments in areas like hiring, retention and promotion, allows an organization to measure the effectiveness of its DEI initiatives and make data-informed adjustments. The frequency of how often an organization should track their metrics will vary based on the organization's goals, resources and size. However, regular check-ins on DEI metrics could be done quarterly, semi-annually or on an annual basis and, whenever data is collected, it should be analyzed.

For employees to feel confident in sharing more personal information about themselves, companies should be transparent regarding their analyses of previously collected data. For example, if an employee engagement survey shows that employees of color do not feel that they belong, an employer should share their plan to address that issue before asking for more complex data points.

Insight and data derived from employees are crucial for the DEI 2.0 roadmap. For example, anonymous employee surveys, well-conducted focus groups and thorough exit interviews, alongside correlational metrics, can help an organization to identify its strengths and weaknesses across different levels. This mixed methods approach also supports an ongoing conversation between a firm and its employees.

Structural and systemic change

DEI 2.0 acknowledges that individual-level interventions alone are insufficient to support lasting change in an organization. Instead, DEI 2.0 aims to address systemic inequities and biases that are embedded within organizational structures, policies and practices. For example, hiring practices may create ongoing disparities in the types of employees coming into the organization.

Changing structures and systems takes examination, hard work, patience and open-mindedness. Shifting historical norms does not happen overnight. How each organization approaches this level of change will depend on its culture and goals, but the results will be revealed based on the retention of diverse talent and how these team members are promoted throughout their organizations. When people have the tools to grow and succeed professionally, they can then serve as role models and mentors to others.

> “Inclusive leadership at all levels of the organization is an essential dimension to DEI 2.0, with a diverse leadership team that emphasizes the commitment to DEI and serves as an example for other team members to follow.”

Inclusive leadership

Inclusive leadership at all levels of the organization is an essential dimension to DEI 2.0, with a diverse leadership team that emphasizes the commitment to DEI and serves as an example for other team members to follow. Leaders play a crucial role in setting the tone for the organization, promoting and modeling inclusive behaviors, and fostering a culture of belonging for everyone in the firm.

The DEI 2.0 roadmap calls for an investment in leadership development programs that cultivate the knowledge base and skill-set necessary to champion DEI-centric efforts effectively. A dearth of inclusive leadership and a shallow pool of diverse candidates for leadership positions are indicators that a firm’s DEI efforts are not successful.

Employee empowerment and resource groups

Employee resource groups (ERGs) and affinity networks that provide a platform for employees to connect, share experiences and advocate for inclusivity can be a powerful tool in support of DEI 2.0. These groups can contribute to shaping DEI strategies, promoting dialogue and fostering a sense of community within the organization.

However, ERGs and affinity networks need careful management and nurturing to ensure their long-term effectiveness. These groups and networks must be dynamic and able to change as circumstances and employee needs evolve. Without proper attention to embed these groups into the structure of a company, they can quickly become social clubs instead of mechanisms for mutual career and professional support and organizational change.

Moving ahead

DEI is neither a popularity contest nor a pet project. DEI initiatives should be designed to empower a sense of togetherness — across all levels of the firm — and provide evidence to all stakeholders that your organization is committed to DEI in the workplace.

Diversity, equity and inclusion apply throughout the value chain, impacting all stages of the investment process from cultivating an employee value proposition that attracts the best talent to improving relationships with vendors and partners. Efforts at the company level can have wide-ranging impacts, including attracting diverse tenants, supporting vendors and service providers from underrepresented groups, and prioritizing projects that would benefit marginalized communities, all which can support overall positive brand receptivity.

History dictates we work better collectively as teams with shared goals and values, but with different and varied expertise. Harnessing the power of diverse backgrounds allows for us all to benefit. Heterogenous working groups have been proven to contribute positively to the economy by promoting resilience, innovation and adaptability. However, this success is contingent upon effective leadership, communication and commitment to fostering inclusive and diverse environments.

Whether we are up to the challenge remains to be seen, but if we truly want to realize exceptional business performance while optimizing our collective efforts, adoption of the DEI 2.0 roadmap is essential. Creating a thoughtful roadmap and committing to DEI 2.0 can help move the needle in the CRE industry’s efforts towards equality, which will have lasting effects for generations to come. ◆

Dionna Johnson Sallis is Director of Diversity, Equity & Inclusion at Ferguson Partners.

The FIVE pillars of capital planning

Evolving markets and technology have changed the way we budget for and manage investment real estate. Understanding these changes, and how they interact, is the foundation of effective capital plans.

By Bob Geiger,
Partner Engineering and Science, Inc.

For managers of real estate investment portfolios, much is riding on capital plans: resource allocation, risk mitigation, long-term planning, deal evaluation and all manner of decision-making. Used correctly, a capital plan is a roadmap that allows investment managers to align asset management strategies with the long-term objectives of the fund and its investors.

Unfortunately, the criticality of capital planning means a flawed capital plan can seriously undermine fund objectives, from cash flow to sustainability metrics. Stakes this high warrant an examination of the capital planning process: what makes a solid, effective capital plan? And how can managers deploy their plans with maximum impact?

Effective capital planning and implementation are supported by five fundamental concepts or pillars, which, when working together, not only reduce unexpected capex events but also streamline management and simplify future planning efforts. The five pillars, presented cyclically in Exhibit 1, are:

- Quality data
- Smart costing
- Effective technology
- Effective project implementation
- Proactive management

Understanding each pillar and its role in the capital plan will enable asset and portfolio managers to write better plans and execute them with less overage, fewer unexpected capital expenses, streamlined project implementation and data-driven management.

Getting the data right

A capital plan is only as good as the data it is built on. Quality data is complete, accurate and consistent.

However, many managers struggle to capture quality data. They may cobble together data from sources such as maintenance or purchase records, resulting in incomplete, inconsistent data. They may assign data collection to the on-site engineering team, which likely lacks the time and training to properly execute the project.

An institutional manager of a 150+ property portfolio recently learned the value of quality asset data when they

1 For examples of project data scopes, see Nate Benton and Josh McCullough, Getting asset data right, *Dialogues*, Fall 2022.

began to question capital expense projects planned by their third-party managers. They engaged a consultant to perform a facility condition assessment (FCA) and review the capex plan prepared by the third-party management team. The review highlighted significant errors in scope, costing and timing of capex projects, all of which could be attributed to poor data such as incorrect unit counts and inconsistent classifications.

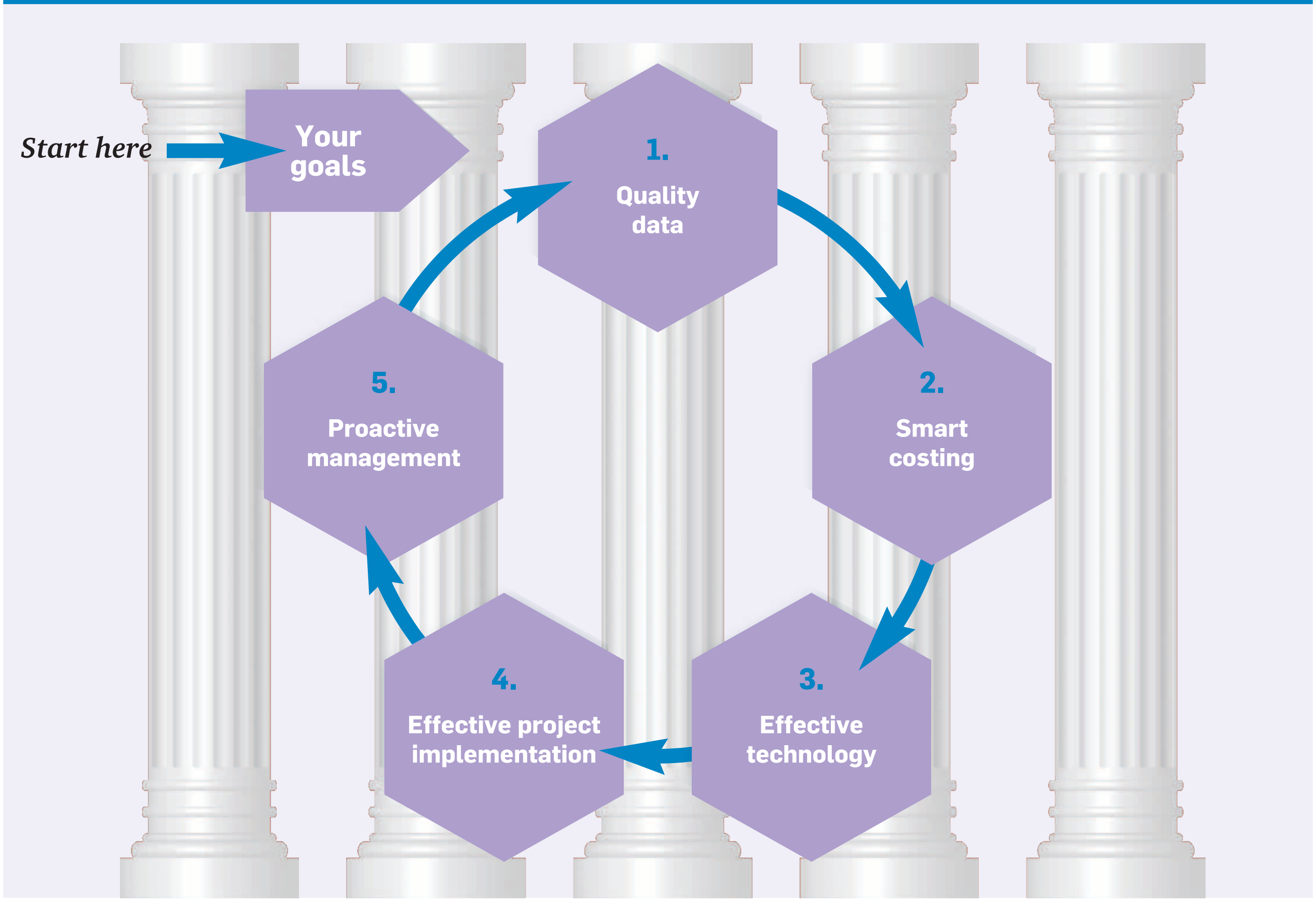
Asset data collection is a complicated undertaking, particularly for large portfolios or complex asset classes. Efficiently collecting and organizing data requires specific technical expertise. An experienced consultant can identify which building systems and components to include in the data collection scope, and which data points to gather for each, according to the objective of the collection effort.[1] They will also be adept at using standard industry frameworks for classifying and organizing asset data, such as the ASTM Uniformat II Classification Standard. Adherence to a standardized framework ensures complete and consistent data.

Apply smart costing

Standard costing methods are no longer sufficient for effective capital planning. Repair, maintenance and replacement costs are affected by rapidly moving variables such as inflation, supply chain issues, labor constraints and regional market factors, so up-to-the-minute data and nuanced application are necessary for accurate costing.

Relying exclusively on sources such as RSMeans or ENR can result in data of questionable validity. These sources tend to be updated quarterly, which may not keep pace with market fluctuations.

Exhibit 1: The five pillars of capital planning



Worse, there is a tendency among engineers to rely on data stored in local drives and desktops that may not have been updated in years.

Smart costing includes the following considerations:

- *Costs of modifying/replacing existing systems vs. new construction.* Many estimating sources use construction data, which may not mirror the cost of maintenance or repair of existing systems. Data from assessments of existing systems may be more accurate for this purpose.
- *Regional variations.* Certain processes and products cost more in different regions. Comparable data must be pulled from geographically appropriate sources.
- *Real-time pricing.* This is especially true for HVAC and electrical systems where component pricing fluctuates rapidly. Engaging with contractors and suppliers to obtain bids and quotes is a valuable practice to provide real-world cost estimates for specific projects.

Beyond using accurate cost data to replace aged-out or defunct systems, it is important to budget for upgrades required to meet asset and/or portfolio objectives. Depending on those goals, budgeting may require anticipating changes in markets, regulations and/or climate.

Asset & portfolio goals: The foundation of a capital plan

Before beginning any capital plan, it is important to identify and clearly articulate objectives for each property and portfolio. Because capital plans support the specific objectives for each asset and portfolio, it is impossible to have an effective plan without a clear objective. For stable, cash-flowing properties, the objective may simply be to protect the value of the asset and continue cash flow for the projected hold period. For value-add properties, the objective may be to increase occupancy, improve building function, boost sustainability or any number of other strategies to add value.

Different objectives require different plans. Plans for assets with long-term holds differ from those for assets marked for near-term disposition. A plan written with a primary goal of boosting cash flow may look very different than a plan designed to support the achievement of sustainability goals.

While this may seem rudimentary, the demands of planning for an entire portfolio may cause this fundamental goal-setting phase to be overlooked or rushed. However, every phase of planning and management relates directly to asset and portfolio objectives, so greater clarity around these goals will increase the effectiveness of the plan at each phase.

It also behooves the management team to articulate these objectives to any consultants or contractors involved in planning or execution.

Choose effective technology

CMMS, IWMS, BAS, REIMS… the marketplace of technology for facility, asset and portfolio management seems as vast and diverse as the commercial real estate industry itself. Real estate firms may struggle to identify which software solutions will work for them, or place too much confidence in a single solution. They may buy software without first assessing their needs and objectives and find themselves with technology that does not support their goals. They may be influenced by vendors and consultants who pitch specific systems.

Effective planning and management software allows property data to be viewed, sorted, analyzed and visualized for effective asset management. Independent evaluation of software is critical. Sources for impartial opinions on technology include:

- *Other commercial real estate firms.* Fortunately, the topic of technology seems to be open for discussion, even among competing firms. Industry forums and peer networking groups are great sources to learn what platforms are working, and conversely not working, for other firms.
- *In-house IT experts.* Information officers and their staff may offer valuable insights on performance and compatibility issues that may be glossed over by vendors.
- *Technology-agnostic consultants.* Ideally, consultants involved in capital planning solutions should have familiarity with various platforms, but no financial incentive to endorse any particular software.

Execute capex projects wisely

Even with an airtight capital plan, flawed execution of capex projects can result in budget overages, or worse, ongoing expenses to rectify poorly installed systems. Team continuity is critical to successful project execution. Involving consultants, vendors and property engineers in capex planning and encouraging communication

> “Proactive management saves costs and extends the useful life of building systems, so more capital can be deployed for strategic improvements instead of costly repairs.”

between them reduces friction and supports a smooth transition from assessments and forensics into project specification and implementation.

Third-party construction risk management services can be a wise investment to ensure that capex projects are executed according to plan, on time and on budget. These services can support contractor selection, review contracts, budgets and schedules, and provide construction monitoring to ensure quality work and inform project owners of any issues that arise before they derail the timeline or budget.

Manage proactively

Proactive management follows two key principles:

1. *Use asset data for predictive maintenance.* The data collected during your FCA — the same data used to develop the capital plan — should be used to schedule tasks such as pavement resurfacing or roof replacement. EUL (end of useful life) data, plus condition assessment, is enough to predict the timing of these unavoidable expenses. By proactively performing maintenance on big-ticket items instead of waiting for systems to fail and/or tenants to complain, facility managers can strategically schedule them, avoid rush charges, take advantage of economies of scale, and be in a stronger negotiating position with vendors and contractors. Furthermore, data visualization tools allow portfolio managers to view the timing of capex projects over their entire portfolio and identify spikes — periods of many concurrent capex demands — before they cripple the budget.
2. *Implement routine inspections to catch small issues before they become big issues.* For example, routine roof inspections can catch small issues such as a blocked drain before pooled water affects the integrity of the roof system. Routine inspection of parking garages can catch signs of cracking or spalling that, left unmitigated, could result in structural failure. Routine inspections and documentation also protect warranties.

The recent efforts of a 100-year-old private club illustrate these principles. With a budget funded almost exclusively by member dues, they needed to avoid unexpected spikes in capital expenses. They ordered a FCA to evaluate their facilities in New York and Rhode Island — both compound sites with unusual, historic structures — in support of a long-term capital plan. They wanted accurate facility data to use as a basis for a 20+ year look into the future that would allow staff to build reserves and avoid panic repairs and unnecessarily high bills.

The data collection team methodically collected building system data and tagged all equipment with barcodes tied to a data file. This allowed the club to use facility management software to track equipment life spans and strategically time replacement to avoid budget spikes. It also allowed them to ensure that all equipment was routinely inspected and maintained, limiting costly repair bills. And it equipped the management team to work knowledgeably with vendors, avoid rushing pricing and combine projects for cost-effective contracting.

Long-term benefits of five-pillar planning

Over time, the benefits of data-driven capital planning and management accumulate. Investing in quality asset data collection helps ensure that data parameters are defined, saved and refined for future data collection efforts, so updating asset data is faster and easier each time. Ongoing proactive management provides additional data — captured in an effective technology platform with accurate costing — for even better predictive capability. Plus proactive management saves costs and extends the useful life of building systems, so more capital can be deployed for strategic improvements instead of costly repairs. ◆

Bob Geiger is Chief Revenue Officer of Partner Engineering and Science, Inc.

DEI *for the* long haul

Following a national racial reckoning in 2020, DEI efforts appear to be waning. But commercial real estate firms need to stand strong on diversity. Here's why.

By Collete English Dixon, Roosevelt University

Following the killing of George Floyd in 2020, America had a moment of racial reckoning that touched nearly every aspect of society, including corporate America and the commercial real estate industry.

As a result, many businesses pledged to improve diversity, equity and inclusion (DEI) in the workplace and to provide increased opportunities for people of color, women, LGBTQ+ and other underrepresented groups. They launched DEI programs, stepped up their recruitment of underrepresented employees and talked about how to better integrate marginalized people into the corporate fabric.

However, three years later, these efforts appear to be waning. Whether because of economic headwinds, misunderstanding or mistrust of what DEI is, low executive commitment, pushback from other employees, lack of immediate success or other factors, some companies are starting to turn away from DEI efforts.

As CRE firms prepare budgets this Fall, I urge them to resist the temptation to cut DEI programs — and instead recommit to DEI both in principle and practice for the long haul. Just as DEI is not an afternoon's training, or something to think about only during Black History Month, it shouldn't be a one- or two-year effort to be tried and discarded when other priorities arise. Instead, DEI is a process and movement to change culture — and it doesn't happen overnight. Fighting 'DEI fatigue' is not only the right thing to do for underrepresented employees, but it is also good business.

Two steps forward, one step back

A recent survey by leadership consulting firm DDI found that leaders' support for their company's DEI efforts has declined 18% in the past two years.[1] LinkedIn found that hiring of chief diversity and inclusion officers declined by 4.5% in 2021–2022.[2] Many DEI officers have left their positions, citing lack of corporate support for their efforts or ambiguous goals that led to limited outcomes. Meanwhile, a WebMD Health Services study of 2,000 employees found 62% said DEI programs aren't effective, and 46%

1 Diversity, Equity & Inclusion Report 2023, DDI.
2 George Anders, Who's vaulting into the C-suite? Trends changed fast in 2022, LinkedIn, February 1, 2023.
3 Why Your Program May Be Failing Employees, WebMD.
4 Olivia Lueckemeyer, Dees Stribling, Bianca Barragán and Joseph Gordon, CRE made limited progress on diversity in 2022. Advocates worry momentum is waning, Bisnow, November 13, 2022.
5 Global Real Estate Survey 2022, NAREIM.
6 Sundiatu Dixon-Fyle, Dame Vivian Hunt, Kevin Dolan and Sara Prince, Diversity wins: How inclusion matters, McKinsey & Company, May 19, 2020.
7 David Michels, Kevin Murphy and Karthik Venkataraman, How investing in DEI helps companies become more adaptable, *Harvard Business Review*, May 5, 2023.

reported such programs failed them personally.[3]

Even the Supreme Court weighed in this June when it determined universities could not consider race in making college admissions decisions. While this didn't directly affect corporate DEI programs, it cast a chill on nascent DEI efforts; 13 attorneys-general signed a letter delivered to Fortune 100 CEOs citing the Supreme Court's affirmative action ruling and asking them to also apply race-neutral principles in their hiring practices.

But there has been progress, including in CRE, if small. Bisnow, which has been studying diversity progress in commercial real estate firms, found in 89 of the largest CRE firms the percentage of people of color (POC) who hold C-level and executive positions rose from 10.9% to 11.6% between 2021 and 2022, and POC now hold 18.3% of board seats versus 16.4% in 2021. CRE executive teams included 25.6% women, up from 23.5%, and board representation increased to 29.6% from 28% for women in that same time period.[4]

A 2022 NAREIM survey of 192 CRE companies representing $2.34 trillion in assets found 97% of firms were addressing DEI through a formal program or at least some initiatives and policies to improve numbers of underrepresented groups. Fully 85% of these firms had qualitative and/or quantitative goals for building the ranks of underrepresented people both at the senior level and throughout the organization.[5]

The case for DEI is still sound

A key reason for diversity initiatives is they make good business sense.

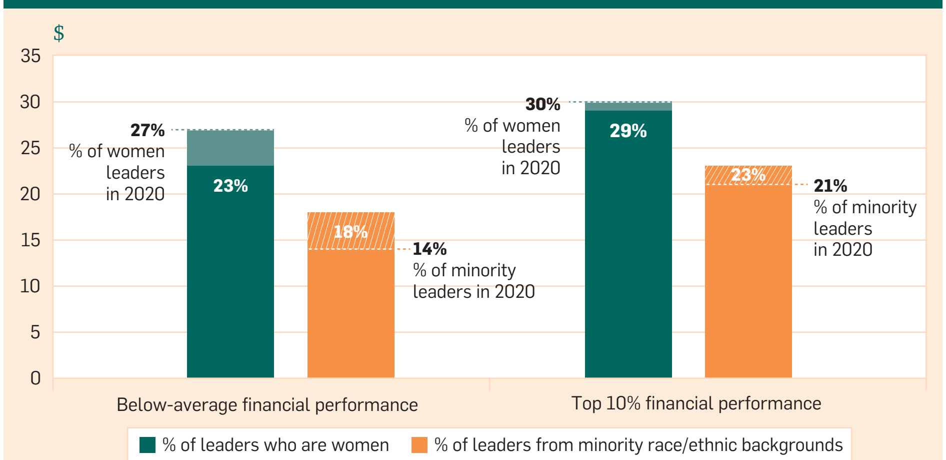
Companies with diverse leadership are 2.4 times more likely to outperform competitors, and companies in the top 10% in financial performance have at least 5% more leaders who are women and from minority racial/ethnic backgrounds than below-average performing firms, according to the Diversity, Equity and Inclusion Report 2023 from DDI.

What's more, the tie between diverse executive teams and better financial performance only seems to be getting stronger over time; and the greater the representation, the higher the likelihood of outperformance.[6] According to DDI, women leaders in top-performing companies dropped from 30% in 2020 to 29% in 2021, with a steeper drop of women leaders in underperforming companies, from 27% to 23%. However, companies are gaining ground in ethnic and racial diversity, with numbers rising several percentage points from 2020 to 2021 (see Exhibit 1).

Companies that successfully launch and implement DEI activities also appear to improve their ability to change — which in turns supports better financial performance, strong culture and leadership, and more engaged and inspired employees, according to a team from Bain, a management consulting firm. They wrote in *Harvard Business Review*: "Doing DEI well correlates with better change power, which in turn is linked not only to company performance but also leadership and employee engagement. These are all characteristics every executive would like to improve."[7]

> "Companies with diverse leadership are 2.4 times more likely to outperform competitors."

Exhibit 1: Organizations that financially outperform industry competitors have more leadership diversity



Source: DDI.

[8] Oriane AM Georgeac and Aneeta Rattan, The Business Case for Diversity Backfires: Detrimental Effects of Organizations' Instrumental Diversity Rhetoric for Underrepresented Group Members' Sense of Belonging, *Journal of Personality & Social Psychology: Interpersonal Relations and Group Processes*, 2022.
[9] Lily Zheng, The failure of the DEI-industrial complex, *Harvard Business Review*, December 1, 2022.
[10] Shelly Brown, Diana Ellsworth, Alex Katen-Narvell and Dana Maor, It's (past) time to get strategic about DEI, McKinsey & Company, May 10, 2023.
[11] Trisha Rai and Caitlin Dutkiewicz, How to navigate pushback to diversity, equity and inclusion efforts, Gartner, May 10, 2022.

> “When companies regress on DEI initiatives, it threatens to roll back even small gains.”

Beyond the business case, DEI also is more fair — a point that tends to resonate more with underrepresented employees, according to one study.[8] Meanwhile, the Gen Z workforce has made it clear they value diversity; one recruiting platform found 75% of Gen Z candidates would reconsider applying to a company with unsatisfactory DEI efforts. (In fact, 48% of Gen Z are racial or ethnic minorities themselves, according to Pew, up from 39% in 2002.) I know students at Marshall Bennett Institute of Real Estate (MBIRE), which has the most diverse real estate graduate-level student body in the country, also value corporate diversity and are drawn to firms with successful DEI efforts.

When companies regress on DEI initiatives, it threatens to roll back even small gains. Leaders who are women and people of color are more likely to plan to leave when they see their firm's commitment to diversity wane, according to the DDI study.

DEI is not a one-time event

Beyond remembering why DEI initiatives were started in the first place, companies can help improve the chances of their DEI success in a number of ways.

1. DEI is a process, not an event

As one DEI consultant noted, DEI is not a one-time motivational event to “raise awareness,” but about “medium- to long-term interventions that change incentive structures, shift the balance of power and resources, or reimagine personnel processes like evaluation, promotion and conflict resolution.”[9]

While DEI is often treated as just a means to attract more diverse people, it goes well beyond that. Recruiting matters, but so does ensuring belonging, setting specific and measurable goals and plans, evaluating results and adjusting activities regularly.

McKinsey noted in a recent report: “[C]ompanies that have begun to fulfill their internal DEI commitments take a systematic approach to establishing their DEI strategies. They set a bold but achievable DEI aspiration linked to the company's overall mission and strategy. They use quantitative and qualitative analytics to establish a baseline and determine what DEI interventions are most needed. They develop a plan for which DEI-related initiatives will be rolled out and when, based on the company's overarching strategic objectives. These organizations mobilize the resources and capability building that's required to deliver on DEI initiatives. And they establish routines for monitoring progress over time; in this way, leaders can hold people accountable for desired outcomes while scaling and sustaining momentum on DEI initiatives that are working.”[10]

2. Be ready for pushback

A recent Gartner survey found 44% of employees reported their colleagues feel alienated by their employer's DEI efforts, and pushback commonly comes in three forms: denial (“This is not a problem,” “I don't see color”); disengagement (“This is not *my* problem,” “It's not something we should address in the workplace”); and derailment (“What about other problems?,” “We should focus on merit and competencies”).[11]

As the Gartner survey reported, companies need to prepare for pushback and continue to work on communicating buy-in, fostering empathy and providing specific steps for taking action.

3. Hold leaders accountable

One of the key reasons for failing DEI efforts is lack of executive understanding of and commitment to the effort. Leaders must hold themselves accountable and be held accountable for DEI efforts and outcomes. Commitment to DEI starts at the top.

Conclusion

In good times or bad, organizations need to remember the business value proposition of DEI: diversity in the room has shown to help companies' bottom line. Although progress has been slow — and sometimes regressive — diversity efforts are worth it, as studies continue to show.

As a woman of color who has been part of the commercial real estate world for a long time, I do see progress. The days when CRE executive teams, project partners, panelists at events or any group of people in our industry lacked diversity, and no one blinked, are past. But I also see some backsliding starting to happen in terms of individual firms' commitment to greater representation. Let's not let that happen, for the good of our industry, the health of our firms and the future of the young people considering a career in CRE. ◆

Collete English Dixon is Executive Director of the Marshall Bennett Institute of Real Estate at Roosevelt University.

NAREIM

Benchmarking research

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Covers more than 65 individual data points broken down by AUM and risk strategy, including:

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- *Financial metrics:* YOY financial performance, EBITDA (pre- and post-bonus) margins, bonus pools, revenue and expense breakdowns.
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- *Governance:* Composition of executive committees, board of directors, management and investment committees, SEC registration.

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Produced in collaboration with Ferguson Partners

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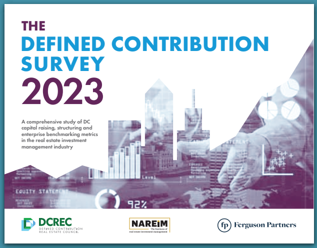


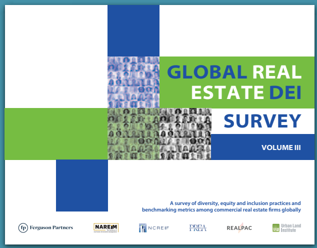
Defined Contribution Survey

Released in September

Produced in collaboration with Defined Contribution Real Estate Council and Ferguson Partners

This report covers:

- Scale and growth of DC offerings and the management of DC real estate vehicles.
- Breakdown of trends, including AUM growth and DC real estate capital flows.
- Organizational resources used and planned in supporting DC real estate strategies.



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Released biennially in January

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Only corporate benchmark for DEI metrics and best practices in commercial real estate globally. Covers more than 140 pages of individual data points, including:

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

For more information, please visit www.nareim.org