

Blog

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Social Impact in the Real Estate Sector - Moving from State Assessment to Impact Assessment

Traditionally known for its tangible impact on the environment and economy, the real estate sector is now witnessing a paradigm shift in its approach to the 'S' in ESG (Environmental, Social, and Governance). The social dimension encompasses the well-being and satisfaction of occupants, users, and the direct community in which a property is situated. As the sector evolves, the need for measuring the performance of social initiatives beyond merely reporting them is growing (Newell, 2023). Understanding which elements within the social umbrella contribute to the property's differentiation and performance, perhaps through occupancy, retention, rent, and overall valuation, will aid in both ensuring the most applicable social elements are pursued as well as quantifying the impact.

While many real estate entities are making commendable efforts to enhance their social performance, there remains this palpable gap in understanding the actual impact of these initiatives. This gap at times mistakenly leads to the conclusion that social impact is only marginally (or not at all) related to the core performance (JLL, 2023). In reality, it is the complexity of social value itself that lies at the root of the obscured connection between social performance and its impact. Compared to the (now) relatively straightforward environmental impact KPI's, social impact appears seemingly intangible, stemming from an unknown multitude of factors and the subjective utility derived from them by stakeholders.

While the matured environmental assessment offers a simplified path with select core quantifiable metrics, the social dimension demands a broader, more holistic perspective at this stage. It requires considering a multitude of factors, recognizing their interplay, and understanding the subjective utility derived from them. This holistic approach, while challenging, is essential for truly capturing the social impact and ensuring that initiatives resonate with the diverse and evolving needs of stakeholders. Only after the complete assessment of performance will we be able to evaluate whether moving towards a selective yet more sensitive core factor assessment will holster a valuable approximation as it does for the 'E'.

What complicates a uniform scoring approach is the inherent variability in the materiality of different factors. Given these complexities, a holistic assessment approach becomes even more indispensable. The social metrics are likely more fluid and different factors might be ranked or weighed differently depending on the sector, user, and location. For instance, while promoting onsite community interaction might add significant value for a senior living complex in a suburban setting, privacy and safety concerns might prohibit or even discourage similar efforts for a student complex in a metropolitan area. A universal approach must therefore be tailored and adaptable, yet standardizable and scalable in order to derive, compare, and learn from sector-specific performance.

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A prerequisite for successfully assessing social impact is the ability to measure actual performance. In order to connect the increased demand, improved user's mental and physical health, or community value to the social performance of a property we need to move from state assessment to impact assessment. A snapshot of the current state, captured in the question "What do you offer?", of social efforts is informative and easy to assess, yet lacks depth and does not necessarily gauge the demand of the user. The true value is in the proposed impact of social efforts, asked through "How is it going?" or "Is this meeting the demands of the target group?". In essence, while state assessment provides a foundation, performance, and value assessment build upon it, ensuring that real estate companies don't just "do good" but "do effectively". Such a measure further incentivizes the internal alignment and evaluation of whether well-intentioned initiatives are indeed impactful, value-driven strategies that resonate with stakeholders. Ideally, only impactful efforts that create shared value should be pursued (Eichholtz et al., 2010; Porter & Kramer, 2019).

In conclusion, the real estate sector stands at a crossroads. The emphasis on the social dimension of ESG is more pronounced than ever. Today's current and potential occupants and users are more informed and conscious. **They seek spaces that resonate with their values and prioritize social wellness and community engagement.** Catering to this demand is not just a moral imperative but also a business necessity. However, in order to cater to this demand and optimize social and economic performance, there's a **need to define, measure, assess, compare, and learn the value and demand of social initiatives.** It's time to transition from a state of mere implementation and unstructured reporting to a state of impactful performance. By transitioning to a performance and value assessment, the real estate sector can be one of the first to ensure that its initiatives are not just well-intentioned but are also delivering tangible benefits. It's not just about doing good; it's about ensuring that the good is effective and valued.

Co-authored with Jill Brosig, Chief Impact Officer at Harrison Street Real Estate Capital. Harrison Street is a leading investment management firm exclusively focused on alternative real assets. Headquartered in Chicago and London with offices throughout North America, Europe and Asia, the Firm has more than 260-employees and nearly \$56 billion in assets under management. Harrison Street has received awards such as the 2023 PREA ESG Momentum Award, Fitwel's Best in Building Health Award (2020-2023), and Best Place to Work (2014-2020, 2022). As Chief Impact Officer, Jill oversees the measurement, management, reporting and enhancement of the Firm's ESG initiatives. Key areas of focus include climate risk and resiliency, carbon emissions reduction and human health and wellness. She is also Chair of the Firm's Environmental, Social and Governance (ESG) Committee and a Co-chair of the Firm's Diversity, Equity & Inclusion Committee.

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