CenterSquare
REAL ASSET INVESTMENT LEADERSHIP

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The Social Spotlight: An Emerging Focus in Real Estate ESG

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The prominence of Environmental, Social and Governance (ESG) considerations within real estate has accelerated meaningfully in the last decade. During that time, the industry has defined material environmental and governance risks and opportunities, making many of these factors measurable. One of the more interesting developments across the real estate ESG landscape has been the evolution of the "S" - i.e. the material "social" considerations critical to the holistic assessment of real estate investments. These factors have long been "grey" areas – not well-defined nor measured. However, real estate is where society lives, works, and plays. Given we spend 90% of our time indoors, understanding the social implications of how the properties we inhabit are developed and managed is paramount to assessing the long-term value of the assets. As such, these social factors have become a core part of our ESG assessment at CenterSquare. Herein, we outline our approach as it relates to the social considerations for real estate investments, the major trends taking shape, and the likelihood of financial outperformance seen across U.S. REITs with better social practices.

Defining Social Materiality

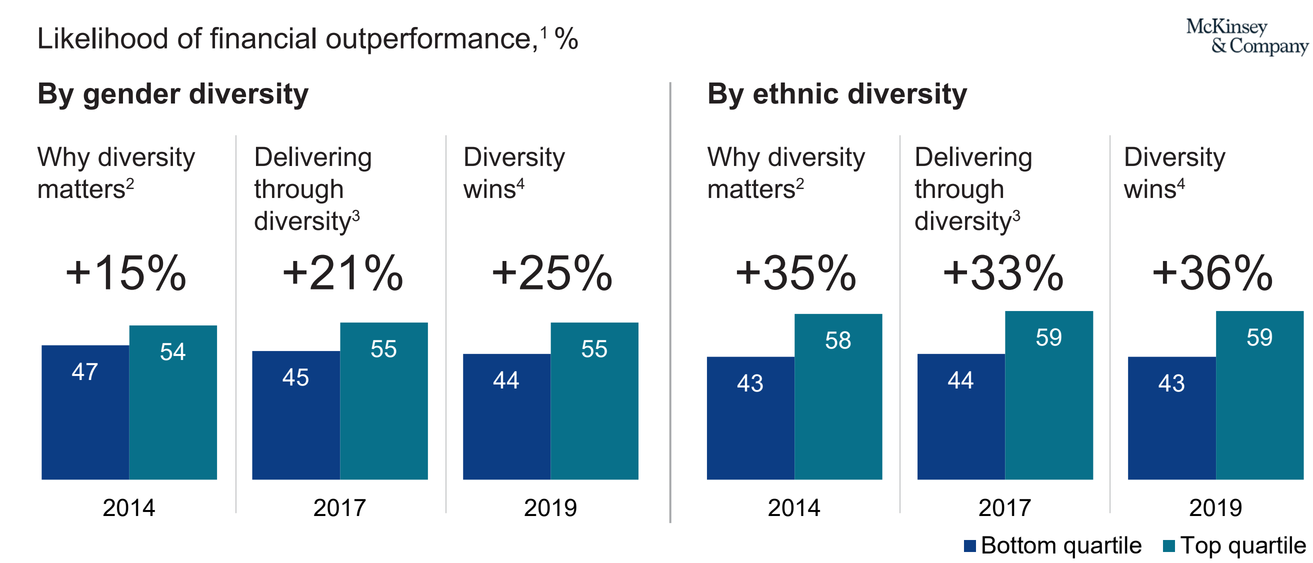
At CenterSquare, we apply a proprietary ESG scoring system to assess the global publicly listed real estate securities across our investment universe. This assessment is part of our overall underwriting of the companies we consider for our $13 billion in REIT assets under management. Within our model, social factors account for 20% of the overall ESG score. These factors assess the quality of the company's platform and its social license to operate, both which are largely influenced by its people. In addition, we undertake an evaluation unique to real estate - examining the relationship amongst the physical asset, its tenants, and the community at large. The built environment is playing an increasingly critical role in human health and well-being, especially as we emerge from a global pandemic.

Enhancing Platform Value

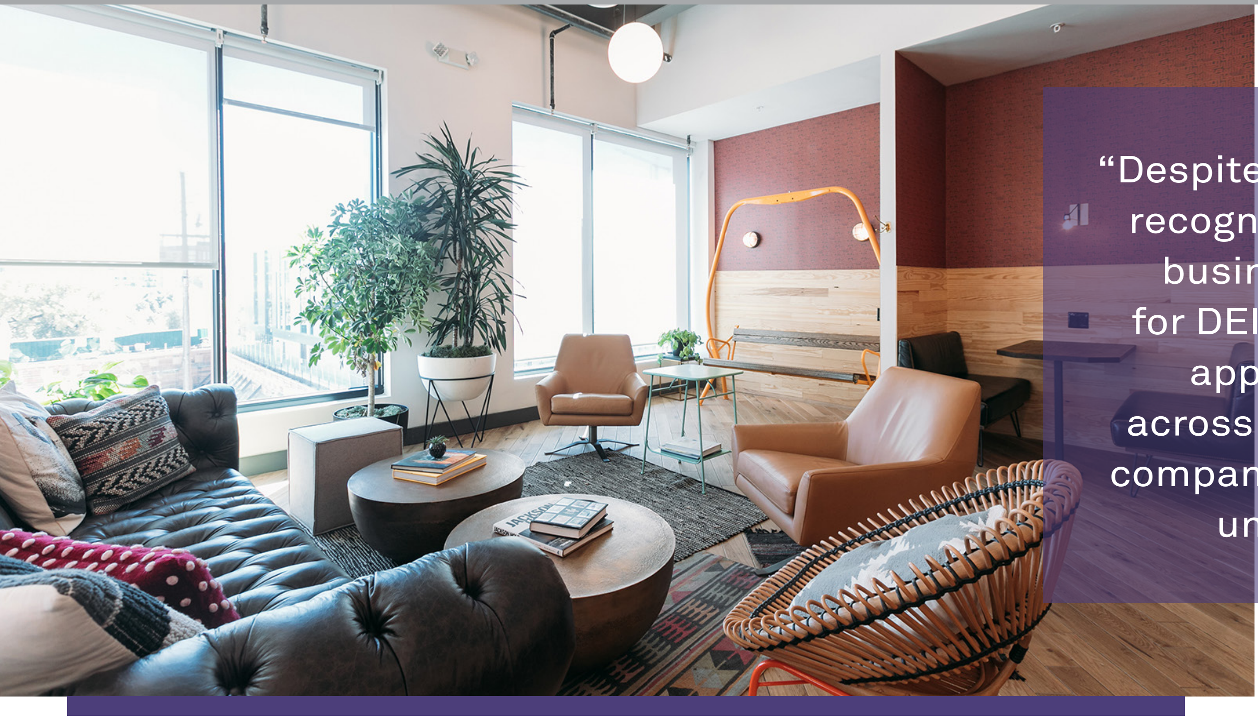
With nearly three decades of experience investing in public equities, the CenterSquare team has noted a common theme: Companies tend to trade at premiums and discounts over the long-term based, in large part, on the quality of their platforms. REITs offer investors access not only to the underlying real estate, but also to acquisition, asset management, development, and operational platforms that power the business. At the end of the day, the level of earnings growth associated with these companies is directly correlated with the success of these platforms, which are comprised of people. As such, attracting, hiring and retaining top talent is paramount for REITs. Here, the application of strong diversity, equity, and inclusion (DEI) programs have shown to be associated with a likelihood of outperformance across the market.

Leveraging diversity as a strategic competitive advantage is no longer considered an emerging practice. The concept of doing well by doing good has been on the minds of thought leaders and business executives for years with supporting data now starting to emerge. In its latest report, McKinsey & Company shows the business case for DEI remains robust and the likelihood of financial outperformance from diverse teams is only improving. McKinsey's findings show that companies in the top quartile of executive team diversity were 25% more likely to have above-average profitability compared to peers in the bottom quartile, and this likelihood has increased over time. Interestingly, their findings show the higher the level of diversity, the higher the likelihood of outperformance.

The business case for diversity is increasingly compelling.



Source: McKinsey & Company. [1]Likelihood of financial outperformance vs the nation industrymedian; p=value <0.05, except 2014 data where p=value <0.1. [2]n-383; Latin America, UK and U.S.; earnings before interest and taxes (EBIT) margin 2021-12. [3]n=991; Australia, Brazil, France, Germany, India, Japan, Mexico, Nigeria, Singapore, South Africa, UK and U.S.; EBIT margin 2011-15. [4]n=1,039; 2017 companies for which gender data available in 2019, plus Denmark, Norway and Sweden; EBIT margin 2014-18. [5]n=364; Latin American, UK, and U.S.; EBIT margin 2010-13. [6]n=589; Brazil, Mexico, Singapore, South Africa, UK and U.S.; EBIT margin 2011-15. [7]n=533; Brazil, Mexico, Nigeria, Singapore, South Africa, UK and U.S., where ethnicity data available in 2019; EBIT margin 2014-18. Source: Diversity Wins data set. **Past performance is not indicative of future results.**



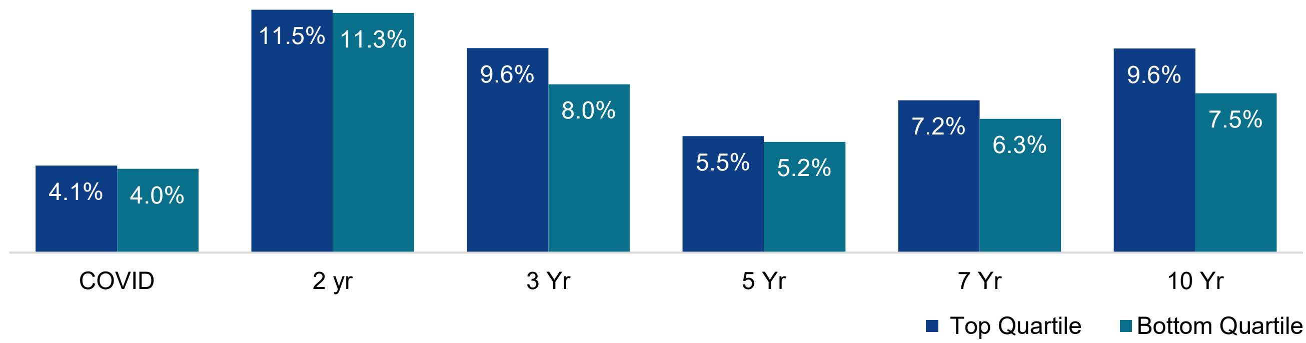
"Despite the growing recognition of the business case for DEI programs, application across real estate companies remains uneven."

Despite the growing recognition of the business case for DEI programs, application across real estate companies remains uneven. Metrics, like diversity by gender and ethnicity across management are not disclosed for nearly half of U.S. REITs. When we dig further to understand pay gaps, the data is even more scarce and available for only a handful of REITs. Throughout our ESG engagement across the investment universe, CenterSquare has highlighted the need for better data tracking and reporting on DEI metrics. We have participated in important efforts like the UN PRI's collaboration around workplace equity through which we are raising awareness of investors' interests in, and expectation of, more meaningful data around workplace equity.

Still, the little data we do have suggests that diversity matters. Gender diversity on the board is one of the few DEI metrics where data coverage exists across our entire U.S. investment universe. Today, only 4 REITs in the U.S. index have no women on their boards, which accounts for roughly 5bps of the index by market capitalization. If we assess the performance of the top quartile of REITs as measured by the prevalence of gender diversity on boards, those REITs demonstrate the ability to consistently outperform the bottom quartile over the long-term.

U.S. REITs with more women on boards have outperformed over the long-term.

U.S. REIT Total Annualized Returns



Source: CenterSquare, Bloomberg, as of February 15, 2022. COVID time period is Feb 21, 2020 - Feb. 15, 2022. Quartiles reflect the ranking of U.S. REITs comprising the FTSE Nareit All Equity REITs Index based on percentage of women on the company board. The above performance does not represent CenterSquare products or strategies. **Past performance is not indicative of future results.**

Evolving Criteria for Job Satisfaction

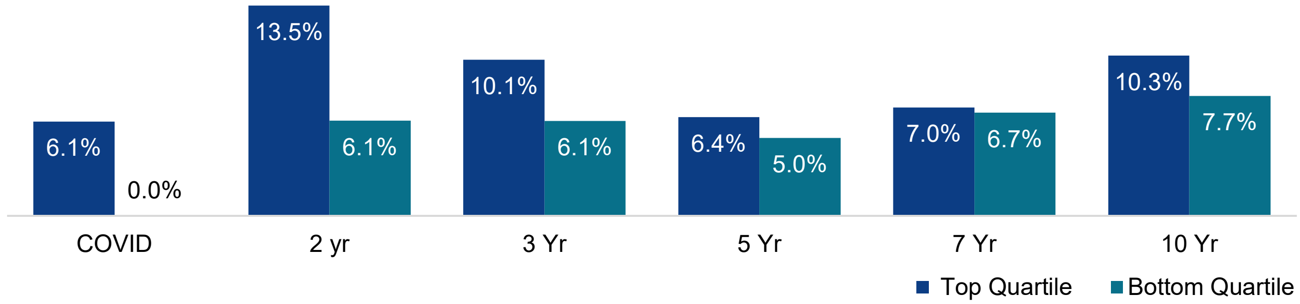
There is still a long road ahead, and the goal of achieving a more diverse workforce, executive team and board requires a greater focus on equity and inclusion. This need has been further underscored during the pandemic and the subsequent "Great Resignation." Employees are focusing on workplace satisfaction more than ever, with many leaving jobs that don't address a growing need for social considerations as it relates to employment. Interestingly, a strong focus on people and their satisfaction has been found to contribute to a company's likelihood of outperformance of 2-2.7% annually from 1984 through 2020, and that outperformance has been strongest during times of crisis – the early 2000s (2000-2002) and the Global Financial Crisis (2009-2009). This study specifically uses Glassdoor ratings to assess employee satisfaction.

Glassdoor, the website where current and former employees anonymously review employers, recognizes several common traits shared by companies deemed to be the best places to work. Notably, one of the driving factors is a strong culture with a clearly defined set of values that are supported by engaged leaders who create a tone from the top. Companies that are perceived well foster a community that is people-focused with a sense of purpose and balance where employees are encouraged and empowered to do their best work. Lastly, but importantly, these companies practice transparency – with open and clear communication, honest feedback, and constructive conversations at all levels of the organization. These qualities create a socially productive environment which is paramount to attracting top talent and creating a strong platform for the long-term.

If we assess U.S. REITs based on their Glassdoor ratings, the top quartile of rated REITs also demonstrates the ability to outperform the bottom quartile of REITs consistently over the long-term.

U.S. REITs with higher employee satisfaction rates have outperformed over the long-term.

U.S. REIT Total Annualized Returns



Source: CenterSquare, Bloomberg, as of February 15, 2022. COVID time period is Feb 21, 2020 - Feb. 15, 2022. Quartiles reflect the ranking of U.S. REITs comprising the FTSE Nareit All Equity REITs Index based on each company's Glassdoor rating. The above performance does not represent CenterSquare products or strategies. **Past performance is not indicative of future results.**

Real estate companies have the opportunity to enhance performance by fostering a culture of diversity, equity, and inclusion for all. The highest performers have begun to recognize this element and are positioned to emerge even stronger from the pandemic. We continue to promote additional transparency from the sector in this regard and hope more data will be collected so additional best practices can be proven in the future.

Human Health and the Built environment

After spending years focused on the impact that buildings have on the health of the environment, the real estate industry has expanded its analysis to also include the impact that properties have on the health of its occupants. The World Health Organization identifies the physical environment as a key determinant of health. As previously cited, Americans, on average, spend 90% of their time indoors where concentration of pollutants can be two to five times higher than typical outdoor environments. The focus on the healthiness of the spaces we occupy has been further highlighted during the pandemic, as we saw transmission of COVID-19 to be 18.7 times higher in indoor environments than outdoor environments. These factors have created a renewed urgency and opportunity for property investors and operators to think about how to design, build, and manage assets in the context of focusing on the impact on human health. Given real estate is the largest store of wealth in the world, valued at $326.5 trillion at the end of 2020, real estate owners and investors are in a good position to drive this change.

Academics have been studying the relationship between buildings and occupant health for many years. Research has shown poorly ventilated spaces have been linked to higher employee absences and lower performance. Studies have attributed as much as 35% of absenteeism in the U.S. to a lack of fresh air in buildings. As the importance of healthy buildings has become more apparent, the global wellness real estate market has grown as well -- to $275 billion in 2020, representing a 22% annual increase from 2017. This jump compares to overall real state construction which declined by 2.5% during the same period. The focus on tenant health and well-being is only set to accelerate from here.

The concept of a formalized focus and strategy on tenant health and wellness is a newer aspect of the listed REIT world. Currently, less than 50 REITs have a clearly articulated strategy around health and wellness, and even fewer have sought wellness certifications such as Fitwell or WELL. These certifications, grounded in academic research, focus on different building aspects that deeply impact human health such as indoor air and water quality, lighting, thermal comfort, healthy materials, acoustics, and more.

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WELL Certification Concepts

WELL Certification is a tool for advancing health and well-being in buildings globally. The 10 concepts in Well V2 offer the opportunity to track distinct health intents, and are illustrative of areas to consider for optimization.

Air

Ensures high levels of indoor air quality through source elimination or reduction, active and passive building design and operations strategies, and human behavior interventions.

Water

Considers aspects of the quality, distribution, and control of water in a building by addressing the availability and contaminant thresholds of drinking water, as well as the management of water to avoid damage to building materials under various environmental conditions.

Nourishment

Encourages the creation of food environments where the healthiest choice is the easiest choice.

Light

Promotes exposure to natural and artificial light and aims to create lighting environments that are optimal for visual, mental, and biological health.

Movement

Promotes movement, physical activity, and active living and discourages sedentary behaviors through environmental design strategies, programs, and policies.

Thermal comfort

Promotes human productivity and ensures maximum level of thermal comfort among all building users through improved HVAC system design and control.

Sound

Improves occupant health and well-being through the recognition of acoustical comfort parameters that impact occupant experiences in the built environment.

Materials

Addresses human exposure to hazardous building material ingredients through the restriction or elimination of products known to be toxic and the promotion of safer replacements.

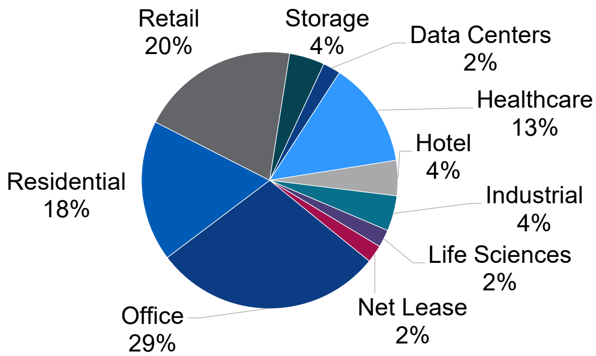
Mind

Promotes mental health through policy, program and design strategies that seek to address the diverse factors that influence cognitive and emotional well-being.

Community

Supports access to essential healthcare, workplace health promotion and accommodations for new parents while establishing an inclusive, integrated community through social equity, civic engagement, and accessible design.

Composition of Health and Wellness Focused U.S. REITs

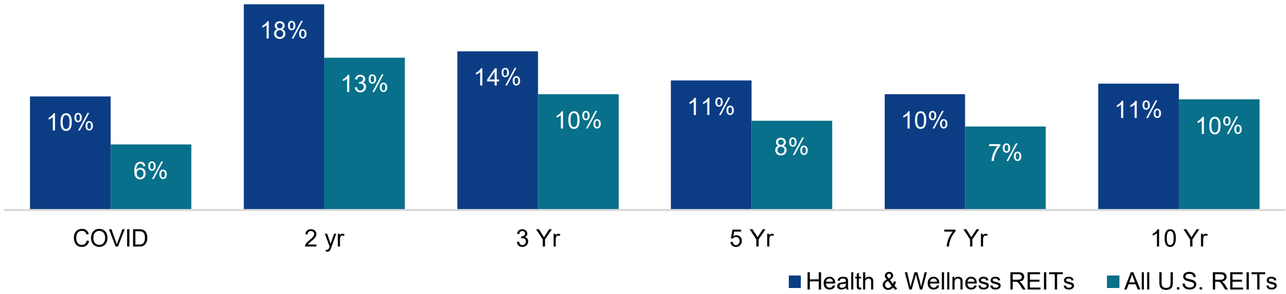


Source: CenterSquare, as of February 15, 2022. Health and Wellness REITs are those in the FTSE Nareit All Equity REITs Index that have either a formal policy and/or certified assets around health and wellness factors.

These “health and wellness focused REITs,” which largely fall into the core sectors of office, residential and retail have historically outperformed the index. The outperformance is especially evident in the recent periods of the pandemic when this issue has been top of mind for real estate owners.

U.S. REITs with a health and wellness focus have outperformed historically.

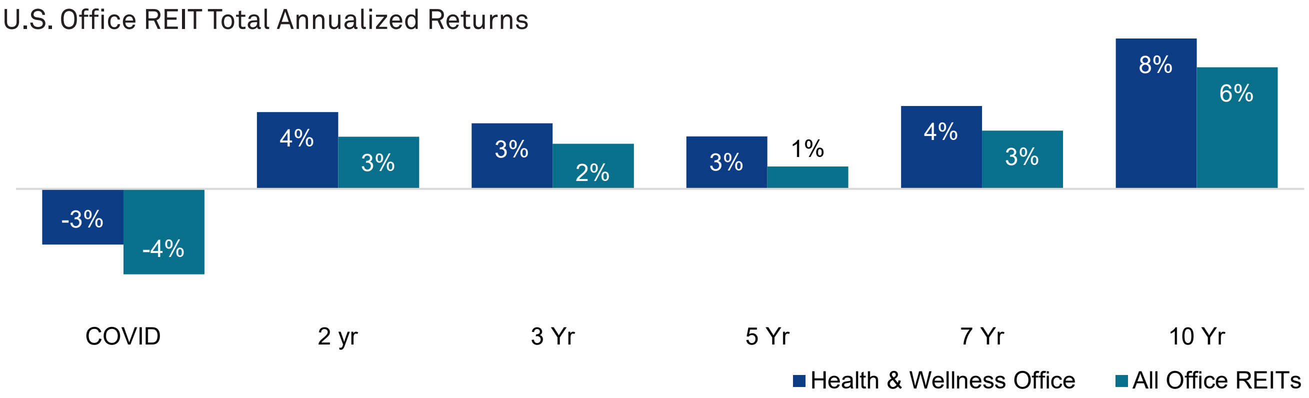
U.S. REIT Total Annualized Returns



Source: CenterSquare, Bloomberg, as of February 15, 2022. COVID time period is Feb 21, 2020 - Feb. 15, 2022. Health and Wellness REITs are those in the FTSE Nareit All Equity REITs Index that have either a formal policy and/or certified assets around health and wellness factors. All U.S. REITs are those companies comprising the FTSE Nareit All Equity REITs Index. The above performance does not represent CenterSquare products or strategies. **Past performance is not indicative of future results.**

The focus on this concept has been acute in the office sector, where a renewed concern for employee health and wellness has emerged out of the pandemic and companies are reassessing their office footprint. As a hybrid workplace is becoming the new normal, companies are demanding less space. The most coveted office properties will be those with healthy indoor and outdoor spaces for employees. We believe this quality will be a winning differentiator for the office sector in this new world rationalization. If we examine performance for office REITs specifically, the likelihood of outperformance of companies with a focus on health and wellness holds true.

U.S. Office REITs with a health and wellness focus have outperformed peers.



Source: CenterSquare, Bloomberg, as of February 15, 2022. COVID time period is Feb 21, 2020 - Feb. 15, 2022. Health and Wellness Office REITs are those office-focused companies in the FTSE Nareit All Equity REITs Index that have either a formal policy and/or certified assets around health and wellness factors. All Office REITs are those office focused companies comprising the FTSE Nareit All Equity REITs Index. The above performance does not represent CenterSquare products or strategies. **Past performance is not indicative of future results.**

The likelihood of outperformance of office REITs that focus on health and wellness stands to reason considering the economic implications of these attributes. A recent study from the MIT Real Estate Innovation Lab analyzed the impact of healthy spaces on the effective office rents across ten major metro regions in the U.S. Their research indicated that certified healthy buildings commanded a premium rent of between 4.4% - 7.7% per square foot when compared to their nearby non-certified peers. This premium was found to be independent of all other factors (i.e. green building certification, age, renovation, lease duration, submarket) and indicates that healthy buildings are, in fact, seen as valuable assets from the tenants' perspective.

Conclusion

The consideration of all three ESG factors – environmental, social and governance – are critical to the long-term health of real estate investing. Environmental best practices continue to be a standard and growing part of investment due diligence, as does reassurances of strong corporate governance. Yet, we believe the opportunity is particularly compelling for real estate companies to establish sound social practices for their employees, tenants, and other stakeholders. The time has never been better to engage; those that do are well positioned to outperform and reap rewards.

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The FTSE Nareit All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property. One can not invest directly in an index.

These benchmarks are broad-based indices which are used for illustrative purposes only and have been selected as they are well known and are easily recognizable by investors. However, the investment activities and performance of an actual portfolio may be considerably more volatile than and have material differences from the performance of any of the referenced indices. Unlike these benchmarks, the portfolios portrayed herein are actively managed. Furthermore, the portfolios invest in substantially fewer securities than the number of securities comprising each of these benchmarks. There is no guarantee that any of the securities invested in by the portfolios comprise these benchmarks. Also, performance results for benchmarks may not reflect payment of investment management/incentive fees and other expenses. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison.

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Ms. Pattarkine is a Senior Investment Strategy Analyst and Global ESG Lead for CenterSquare Investment Management. She joined the team in 2017 and focuses primarily on top down analysis, research and product development, and is an active member of the public side research effort. Prior to joining CenterSquare, Ms. Pattarkine spent three years in corporate strategy and planning at ExxonMobil in Houston. Ms. Pattarkine graduated from The Pennsylvania State University with Interdisciplinary Honors and High Distinction and holds a BS in Finance with a minor in International Business, BS in Accounting, and Master of Accountancy. She is a CFA charterholder and member of the CFA Institute, a LEED Green Associate and sits on the Board of Directors, and the Policy & Advocacy Committee for Green Building United, and Sustainability Advisory Board Member for the Penn State Smeal College of Business.

About CenterSquare

CenterSquare is a global investment manager focused on actively managed real estate strategies. Headquartered outside Philadelphia with affiliate offices in New York, Los Angeles, London and Singapore, CenterSquare's management team holds an average of 30 years of experience, with real assets expertise across the capital spectrum. As of January 31, 2022 CenterSquare and its affiliates manage approximately $15 billion in assets on behalf of some of the world's most well-known institutional and private investors. For more information, visit www.centersquare.com.

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