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We the People: How Commercial Real Estate Can Impact the S in ESG

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Over the recent decades, we have seen greater attention paid to Environmental, Social, and Governance (ESG) initiatives. Environmental concerns and consumer demand resulted in the establishment of eco-certifications, ratings, measurement and reporting of environmental impact or progress toward specific goals that are quantifiable, comparable, and firmly established in the common lexicon for real estate. As the business case for green was made, so evolved the E. Governance was addressed in the wake of corporate scandals. Improvements in oversight, policies, and most recently a push for C-suite and board diversity, generally form the predominance of the G.

But the S isn't as easily understood, nor is it easy to measure. The COVID-19 pandemic highlighted some systemic failings within the built community regarding the S. We saw increased social isolation in areas without greenspaces. Workers, mainly women, were sidelined not due to a lack of in-office mentoring or culture building as many suggest, but because disproportionate home life demands, previously more manageable, suddenly became insurmountable. As the lockdowns persisted, and companies were forced to implement technology that gave employees the ability to work anywhere, we learned lessons about how the 9-5, two-hour-commute work culture may not be conducive to a healthy community.

Major urban areas experienced sizable out-migration as workers moved to places that more accurately reflected their wants and needs. Research is providing strong evidence that a significant portion of our workforce does not want to return to the old way of doing things. Companies that are responding are widening the corporate productivity gap, maintaining a competitive advantage in hiring, and increasing employee productivity by more than 5% (Garton & Mankins, 2020). Though office utilization is currently the most widely talked about metric, remember that all sectors are affected by these preference-based demographic shifts. Significant changes in resident and worker populations directly impact other sectors such as retail and hospitality. Industrial, too, depends on the ability to accurately forecast consumption patterns but also on the ability to attract workers.

As office vacancies sit only slightly off their high of 18.5% and workers' physical office utilization stands at about 40% of pre-pandemic rates (Li et al., 2022) companies need to reevaluate their real estate strategy. Rather than simply making offices look more like Starbucks or our living rooms to lure workers back to the office, real estate professionals should focus their energy on revamping and redesigning our cities to make them more hospitable and habitable for people to live, work and play. Safe, "livable" cities that provide green spaces, have more affordable (and spacious) housing, and are walkable to work, school, shops, and restaurants are needed. Mixed-use developments, such as Hudson Yards in New York City, The River District in Chicago, and Schuylkill Yards in Philadelphia, the latter of which includes a nearly $6 million USD initiative to develop small business, affordable housing, and jobs, are becoming increasingly common and sought after.

COVID underscored the importance of human capital and gave voice to worker preference. It has become essential for companies to recognize the impact of place on employee productivity and retention. For work, there must be location flexibility, embracing technology to support remote engagement, as well as quality space with access to natural light, areas to work both quietly and collaboratively, and initiatives designed to make shared workspaces more inviting. In short, we need to develop policies and spaces that are more adaptable and hospitable to all.

This construction of inclusive and welcoming environments extends beyond the workplace; it is the foundation of our communities. To support the S in ESG, real estate investments should be more than bricks and mortar. Investments should support the overall fabric of a community to best serve the people within them—the employees and the consumers. In turn, investors will be rewarded with more stable and successful tenants, helping to minimize financial risk.

The revitalization and growth of our cities will require policies, initiatives and designs that embrace the ability for everyone to live, work and play comfortably. This, in turn, results in value creation and a vibrant, economically sustainable society. The people have spoken about what they want, and it remains to be seen who is listening.