

NAREIM

SPRING 2022

BEST PRACTICES SHARED | VALUE ADDED

dialogues



Making DEI data collection MATTER

ALSO IN THIS ISSUE

- Getting opportunities in outpost economies right
- Insurance companies as a source of permanent capital
- Incorporating biophilic design principles to improve health and well-being

NAREIM

dialogues

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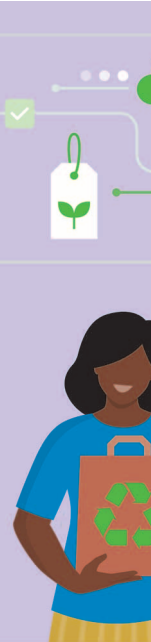
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Securing the future

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A HOLISTIC approach drives ESG results



The opportunity to affect ESG change is significant in the multifamily sector, but structural hurdles and a lack of uniform regulation present challenges.

By Nicholas Stein,
Sentinel Real Estate Corporation

How do you integrate environmental, social and governance (ESG) considerations into multifamily assets on a national basis when there is no standardization to provide clear direction for success? For Sentinel, the integration of ESG into the operation of our multifamily communities is an evolving process, driven by investor interest, risk management concerns, and a growing body of statistical evidence supporting the long-term societal and performance benefits of adopting these practices. Operating as both a value-driven and values-driven entity presents us with a path toward policies that, when adopted holistically, provide us with distinct returns on investment, both fiscally and with respect to social responsibility.

ESG in multifamily

Implementing ESG strategies across a diverse, national portfolio of multifamily properties is complex, and there is no

one-size-fits-all approach to integrating these efforts. Wide variability in municipal regulations, construction standards and investment strategies require that each community is addressed individually. This evaluation is most effective if it commences in conjunction with acquisition due diligence and continues through every stage of the investment lifecycle.

In Australia, we were an early entrant into the rapidly growing build-to-rent sector, where, given the absence of purpose-built multifamily assets in the country, our strategy is focused on ground-up development. We were the first to develop and operate Australia's first build-to-rent development, Element 27 in Subaico, Perth, in 2019, which set a precedent last year as the first apartment building in Australia to achieve carbon-neutral certification by the Green Building Council of Australia. The property was also designed to a 5 Star Green Star rating and achieved a 7 Nationwide House Energy Rating (NatHERS), making



it one of the most energy-efficient apartment buildings in Perth. Our intention is for our entire Australia portfolio to be carbon-neutral certified.

In the role of developer, the opportunities to manage sustainable outcomes are much more ingrained in the structure of the development itself. Environmental approaches can be applied in a progressive, holistic way, from building strategies aimed at water and energy conservation, to reduction in greenhouse gas emissions and minimal maintenance and waste through the use of durable products. With added policies and operational procedures, this makes achieving a certification as significant as carbon neutral more feasible.

In the US, Sentinel primarily acquires existing assets, with a focus on core, core-plus and value-add strategies. As such, we've found that asset-level ESG initiatives must be informed by a number of factors, including the vintage of the property, its location and its existing infrastructure. In order to drive

optimal results, assessments must take into account climate risks, local regulatory environments and existing building systems, among other things. We must also balance the cost implication of improvements relative to investment goals in order to identify the appropriate strategies.

With an existing property, we are working with established infrastructure to make improvements, and, as a developer, we have full control over the upfront decisions that impact long-term sustainability and performance of the properties. These efforts include selecting durable materials and installing high-performance systems, finishes and fixtures that extend the lifecycle of the original investment and reduce maintenance requirements for both the resident and the management team. We also place a strong emphasis on the design of the communities and carefully consider the layout of common areas and amenities to enhance the social interaction and well-being of residents.

“ Installation of LED fixtures in the common and amenity areas at our Lantern Woods property in Indiana reduced common area electrical usage by 41%. ”

Across our portfolio, as properties are refurbished during the course of their holding period, we replace lighting systems with LED fixtures throughout common areas and apartments; add EV charging stations; install low-flow shower heads, water efficient toilets and drip irrigation systems to reduce water usage; and utilize ENERGY STAR appliances to conserve energy. These simple steps can translate into meaningful returns. For example, installing LED fixtures in the common and amenity areas at our Lantern Woods property in Indiana reduced common area electrical usage by 41%.

As demolition waste accounts for approximately 90% of the construction industry's waste generation, we have taken measures to reduce our waste generation such as specifying cradle-to-cradle recycled flooring content. An example is Shaw EcoWorx®, which has upfront sustainability benefits in how the product is manufactured and can also be reclaimed and recycled at the end of its useful life to create more EcoWorx® flooring products.

An important operational consideration is our residents' awareness and collaboration in responsible consumption. Sentinel's property managers are responsible for

Value in certification

For investment managers the directive is clear; however, there is no definitive framework for implementing ESG programs. Benchmarks and certifications like GRESB, LEED and the Institute of Real Estate Management's (IREM) Certified Sustainable Property (CSP) Program provide reporting templates and have helped to drive greater adoption by providing guidelines for how to structure an ESG program — but none of these systems have provided a comprehensive blueprint for investment managers.

Even so, we recognize the value of such certifications. World Green Council Building in 2021 found that assets with green building certifications benefited from rental premiums of up to 12%, and that new buildings' asset value was expected to increase by 6% or more for green buildings. Sentinel Real Estate Fund, Sentinel's core, open-end apartment vehicle, commenced a portfolio-wide effort to obtain asset-level certifications in 2020, working within the IREM CSP Program. In evaluating certification systems, we determined that IREM — an alternative to LEED certification — presented the best path given that it is more customized to property managers, whereas LEED's requirements are tailored toward developers and contemplate items that are often beyond a property manager's control. IREM CSP certification itself is also more cost-efficient, supporting our efforts to control costs as a responsible fiduciary to our investors.

Sentinel Portfolio Highlight



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Nona Park Village Apartments
Orlando, Florida > 302 units

IREM Certified Sustainable Property
National Green Building Standard® (NGBS) Bronze

- 87 ENERGY STAR® Score
- 30.5% year-over-year water reduction
- Water reuse in property irrigation
- Bike storage
- EV charging available
- Community garden, bocci ball, and other wellness amenities
- Use of native landscaping; replaced mulch with river rock
- On-site recycling programs
- "Model minders" to deactivate lighting when not in use in models, community restrooms, and other spaces
- LED lighting installed in individual apartments
- Programmable thermostats in enclosed common areas
- Screens on balconies as barriers, furthering integrated pest management goals
- We Connect community service program

Nona Park Village Apartments located in Orlando is the first property to receive IREM CSP certification within the Sentinel Real Estate Fund, and we continue to methodically work to certify each asset in our core portfolio, obtaining 14 more certifications to date. The certification represents assessments of the properties' capital programs, daily operations, operation audits, our Sentinel Green Program — which details sustainable practices, materials and equipment — and resident outreach. IREM highlighted Sentinel's efforts and this property, in particular, as a case study in its ESG in Action publication, shown at the left.

In addition to environmental efforts, there is tremendous opportunity for strengthening the social pillar of ESG platforms by increasing the amount of programming and education provided to support community engagement and wellness. Fitness centers, outdoor spaces, community events and pet-oriented amenities provide the opportunity for improving personal health and social engagement. These efforts are also taken into account in programs like IREM CSP certification.

In either case, as an investment manager or developer, critical to the success of an ESG program is the ability to report to stakeholders, including investors. The third-party validation that comes with certification helps to increase confidence among these audiences that we are holding ourselves accountable to verifiable standards and are putting in place a framework that enables us to report our progress and demonstrate measurable results.

communicating with new and existing residents, providing them with the tools and education they need to practice more sustainable living within their homes. To that end, Sentinel has developed a Sustainable Living Guide and a quarterly *Living Green* newsletter that are provided on each property's website. We also populate our social media outlets with sustainable living tips. Where appropriate, residents sign the National Apartment Association Sustainable Lease Addendum, which addresses aspects of energy efficiency, water efficiency, waste and recycling, indoor environments and wellness.

Beyond sustainability initiatives, we have addressed the social aspect of ESG by initiating a community service program called 'We Connect' to promote volunteerism and the support of local service providers. We encourage regular community involvement through events with a larger societal benefit, such as Earth Day activities or donation drives for local food banks, Toys for Tots, the Ronald MacDonald House and local veterans hospitals.

We have also examined how our highly amenitized communities can have social benefits, from enhancing dog walks and pet parks, to converting traditional chlorinated pools to more healthful saltwater systems. We have properties with community gardens, hammock lounges, loaner bicycles, bocce ball, frisbee and putting courses to encourage outdoor activities and socialization beyond the typical pool areas.

Challenges to sustainability efforts

While the growing attention on sustainable investment is promising, the multifamily housing industry in the

United States continues to face structural hurdles that impact adoption and implementation of sustainability initiatives. For example, it is particularly challenging to collect whole-building data for benchmarking and tracking a property's overall energy usage. The vast majority of US municipalities still do not have benchmarking ordinances in place that provide landlords access to tenant utility data on an anonymous basis in order to measure the property's overall energy usage.

Since most tenants in the US pay their own utilities and manage their own consumption, a significant amount of usage is generated by the residents themselves. We make every effort to educate and encourage responsible utility usage, but without metrics to review and report outcomes, it is an open-ended endeavor that makes the capital investment in unit upgrades a challenge to justify to investors — when the savings generated by those initiatives will not be recognized at the asset level. Fortunately, residents have demonstrated their appetite for sustainability in housing; according to ApartmentData.com, 61% of renters say they would pay more each month in rent for an eco-friendly apartment.

Additional challenges stem from the varying regulatory regimes that exist across the country, which impede efforts to adopt a uniform nationwide approach to sustainability. Just 16 US states have fully deregulated their energy markets, allowing the landlord to select a green energy option as its source of energy for common areas in their communities. Building codes also vary widely across the nation. In some municipalities, building to LEED standards is required while much of the country does not place sustainability-

based constraints on new construction. Many cities and some states require commercial buildings to benchmark their energy use or even prescribe reductions in greenhouse gas emissions over time based on building size, while others do not require any such steps. Further, incentive structures vary widely with regard to encouraging investment in green energy such as on-site solar panels. Even something as simple as trash recycling faces a wide variety of rules across the country.

Refinement, evolution and the future

As science and technology advance, and the practical application of sustainability at our properties changes, we must continue to focus on driving better outcomes by leveraging new information to refine our programs and revise our procedures to remain in step with best practices. Throughout that process, we will continue to measure our success in these areas through recognized global programs, including GRESB, United Nations Principles for Responsible Investment (UNPRI) and IREM's CSP Program. Ultimately, corporate ESG programs cannot and should not be simply a means to check a box. They should represent a concerted and cohesive organizational effort that balances impact and investment while making a meaningful difference to the environment, to our communities and to our investors. ♦

Nicholas Stein is a Managing Director and Chair of the ESG Committee at Sentinel Real Estate Corporation.