Harrison Street

Case Study ESG

Quantifying the financial impact of the “S” in ESG

PROJECT:
Social Scorecard

COMPANY:
Harrison Street AM

LOCATION
Multiple locations

Challenge

The real estate industry has been able to quantify the impact from **“E”** in **ESG** activities, such as utility efficiency enhancements, through observing a lessening in utility bills after an improvement occurs. Quantifying the **"S"**, which encompasses the tenant’s experience, has been far more elusive because social impact is complex, subjective, and lacks standardised metrics. Social factors are harder to quantify and vary by asset type and location. Data is often based on surveys, which are inconsistent and costly to gather. Social benefits may also be long-term or indirect, making them hard to link to financial performance.

Additionally, what counts as “social” differs across stakeholders, tenants, residents, and local communities, and is shaped by local cultures and regulations. Without clear benchmarks or comparability, measuring social performance is a major challenge.

Solution / Approach

In 2021 Harrison Street partnered with Maastricht University’s Center for Real Estate, the same team who developed GRESB (Global Real Estate Sustainability Benchmark), to create a comprehensive rating system for a property’s social performance. The research rolled out in phases, with the first phase taking a year simply to define “social”. Input was captured from key stakeholders, including investors, building owners and operators, and academia to determine materiality. From this, over 40 social indicators were selected across four pillars: residents, workers, building management and community.

The tool is designed to analyse how the indicators correlate, or not, to key financial metrics such as retention, rent fees, occupancy, and overall value. The approach taken was to develop a tool within the industry that is also backed by science.

Results

To date over 60 properties have obtained a social rating and report which not only provides a score but guidance on how they can leverage where they are excelling and improve key deficiencies.

Harrison Street also engaged Massachusetts Institute of Technology to help validate an approach using both ridge regression and machine learning techniques to determine any correlations between ESG attributes and property performance. Initial results show increases in NOI for various social related activities, and now that the methodology is validated, over the next several months Harrison Street will be adding more data to the study allowing for more granular cuts of the data.

Outcome

In real-estate operations the decisive exchanges are not the ones between a building and its surroundings but the daily interactions between the asset, the people who use it and the community it serves. Those interactions govern willingness-to-pay, renewal rates, staff productivity and, ultimately, cash flow. Yet managers have lacked an objective way to see whether the dollars they spend on amenities, programs, and policies are producing the social experience that drives value.

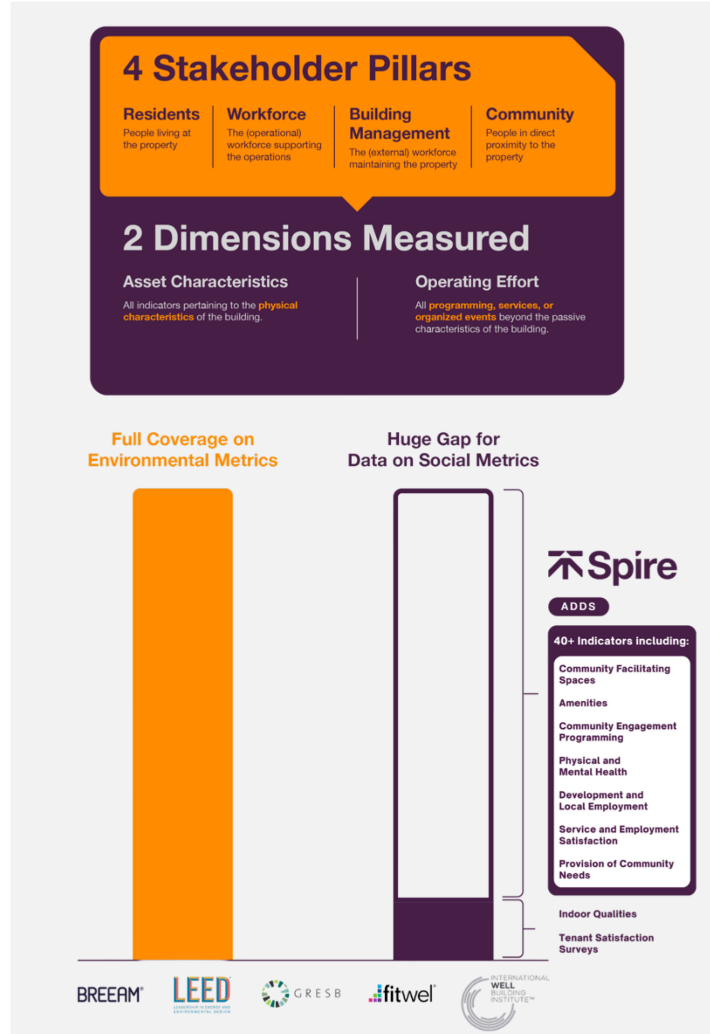
The approach that was developed through a partnership between industry and academia addresses that need by determining how what a property is doing from a social perspective is valued, and how it is creating a meaningful impact. The resulting scorecard was designed with input from not only the partnership but also building operators and LPs.

The rating the scorecard provides is descriptive, not prescriptive; it describes what works instead of prescribing what should work. Three features make this possible:

1. A measurable, universal language for "social": Forty-plus indicators, grouped under Residents, Workforce, Building Management and Community, translate diverse initiatives into one rating that is materiality-weighted and within and between sector comparable.

2. Benchmarking and signaling power: Each score is positioned against a live peer universe so a property manager or building owner can determine whether an amenity mix or workforce policy, for example, is leading or lagging comparable properties.

3. Actionable guidance: The analysis strives to provide feedback to match an asset's performance to stakeholder preferences. Asset level reports highlight where a building excels and where modest reallocations could lift performance.



Data is captured, then validated and weighted for materiality through a mobile portal and returned as a scorecard and narrative write-up. For the property manager, the scorecard allows site teams to validate and identify areas of excellence or deficiencies and justify budget shifts toward the highest-impact activities. It provides guidance to assess whether social initiatives are valued by the user and makes recommendations on whether existing design and offerings can or should be optimised. The idea is not to simply do more, but to do better with what one has.

For operators, aggregated ratings across the buildings they manage, reveals how consistent the customer experience is across a brand; managers can identify internal best practices, replicate what works and present a coherent social identity to stakeholders. These reports highlight leader-and-laggard patterns and provide insights on how to promote equitable performance across the portfolio.

In the pilot over 60 properties utilised the scorecard. From that exercise the team made enhancements in both its structure and useability. Because every new property that completes the scorecard also feeds back into the benchmark, the standard sharpens with use. Over time the tool is expected to deepen causal insight, linking specific score movements to retention, lease velocity and cap-rate compression, for example.

Whereas this is a tool Harrison Street developed to better understand how to optimise their own implementation of all things “social”, the scorecard can be adapted to other asset classes and other GPs.

While this has been a long effort, beginning back in 2021, Harrison Street has never lost faith that social can be measured and tied back to financial performance. As more properties run through the tool, the findings and insights are projected to only sharpen and become more valuable.

Harrison Street AM

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