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'Healthy Buildings': A New Real Estate Sector Takes Shape

By Joe Morris June 30, 2021

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A whole new real estate investing segment focused on “healthy” buildings is emerging from the market’s Covid-19 troubles, but first investors need to agree on how exactly to define it.

Healthy building design – or planning and maintenance features promoting occupant health and wellness – used to be merely a real estate amenity. But today, state-of-the-art ventilation, pervasive sunlight, touchless entry systems, frequent cleanings and similar features are increasingly in demand from tenants – and thus top of mind for real estate fund limited partners.

“It has become somewhat mandated by the pension funds,” says **Naseem Wenzel**, a partner at **CohnReznick** in Chicago. “I’m also seeing investment managers focusing on it because it is becoming very attractive to get new investors in.”

Healthy building design dates back more than a decade, gaining adherents most prominently in residential and healthcare-related construction. The federal government’s **General Services Administration** was an early proponent, spearheading a health and wellness building rating system for government offices in 2011, which was subsequently spun off as **Fitwel**, a commercial certification platform.

Among firms implementing **Fitwel** at portfolio scale are **Bentall GreenOak**, **Cushman & Wakefield**, **Nuveen**, **Tishman Speyer** and **Brookfield Asset Management**’s **Brookfield Properties** affiliate.

Once the pandemic lockdowns took effect, interest in healthy building office designs exploded, as building owners and operators scrambled to reassure tenants their properties could adapt to new indoor safety requirements, according to **Vaibhav Gujral**, a New York-based **McKinsey** partner. And that discussion quickly moved into the realm of limited partners (LPs) and general partners (GP), he says.

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“It became very standard for tenants or occupiers to start asking questions around the healthiness of their buildings, questions they had never asked before,” Gujral says. “On the investors’ side... LPs started asking questions of their GPs around what their operators are doing to make their buildings safer.”

Fitwel reports a 136% increase in tenants registering their workplace projects with the certification program last year.

Reflecting the rising demand, real estate managers are incorporating the theme into their investment activities. **Harrison Street** this year committed to having a pipeline of more than 500 Fitwel-certified senior and student housing, medical office and life science properties, in what Fitwel called a “first-of-its-kind partnership.”

“It’s going to be interwoven into everything we do,” says **Jill Brosig**, managing director and chief impact officer at Harrison Street. “No matter what type of occupied property we have, it’s a healthy building. That’s just part of our brand.”

No real estate funds have started fundraising around healthy buildings as a standalone strategy, but it’s only a matter of time, according to **Vincent Dermody**, managing director of CohnReznick Australia.

Dermody says just this month the head of investment at one of Singapore’s sovereign wealth funds told him that the fund was coming under pressure to integrate a healthy building mandate into its real estate portfolio.

“They’re now realizing that it will be demanded by tenants,” he says.

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The main barrier to new fund formation, Dermody says, is the lack of consensus around a standard for defining healthy buildings.

“The challenge [real estate investors] are having mostly is, what exactly is a healthy building?” he says.

In addition to Fitwel, the **International WELL Building Institute’s** WELL Health Safety ratings and building standards have gained a higher profile. **Harvard University’s** T.H. Chan School of Public Health has compiled a list of nine “foundations” standardizing healthy building principles, and still other rubrics exist.

McKinsey’s Gujral sees an even bigger, albeit surmountable, obstacle: measuring the benefit that healthy buildings deliver.

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“If the link to value is not really clear and direct, then you’re not going to see a return, and then it’s all just a perception,” he says.

A **Massachusetts Institute of Technology study** from last year estimated that leases in certified healthy buildings transact at between 4.4% to 7.7% more per square foot than nearby non-certified peers, suggesting a correlation in which tenants believe these properties are worth paying a well-being and productivity premium.

Gujral is skeptical that the link to performance can be proven so easily, since human productivity depends on far more than office environmental factors. Ultimately, however, a precise productivity quotient might not be necessary, he says, so long as there is data to show that a building is indeed healthier.

“It may be sufficient if we can measure the inputs and communicate them to people in a clear and transparent way – that air quality is excellent, that light is good on these floors, noise levels are acceptable on these floors – and how those variables change with occupancy levels and work patterns,” he says.

Harrison Street’s Fitwel certification initiative is intended mainly to generate measurable data by building a bigger database to draw from, Brosig says.

“We will obtain enough certifications so that we can study the correlation between healthy building design and operations to overall building performance,” she says.

Making the statistical case will be daunting, but it’s not unprecedented, Brosig says, likening it to the challenge of substantiating the benefits of environmental, social and governance-themed investing.

“Probably where we are with quantifying the ‘social’ impact is comparable to where we were with measuring ‘environmental’ 15 years ago,” she says.