

ARA BUILDING VALUE

Healthy Buildings



Building Value is a series from American Realty Advisors that explores investment strategies, building improvements, and management initiatives designed to promote our environmental, social, governance, and resiliency goals.

THE STRATEGY: HEALTHY BUILDING CERTIFICATIONS

Why Healthy Buildings?

Three years after the onset of a global pandemic, our society is more focused than ever on protecting public health. In commercial real estate, that means tenants are prioritizing space that supports the wellbeing and productivity of their current and future employees. Such strategies can also ease concerns over returning to the office, bringing colleagues back together in spaces to collaborate and meet face-to-face.

For years, the aims of energy efficiency, water conservation, and waste reduction have dominated commercial real estate sustainability strategies. While these remain high priorities, the demand for healthy buildings is projected to grow in the coming years, especially for office and residential properties. In fact, 92% of investors surveyed in [A New Investor Consensus: The Rising Demand for Healthy Buildings](#) – the largest health and wellness study of global real estate investment managers ever conducted – indicated demand for healthy buildings would grow over the next three years, largely driven by demand from office (87%) and residential tenants (61%).

What is the Role of Commercial Real Estate in Healthy Buildings?

The real estate industry's knowledge around the green premium for LEED-certified space has matured and is now collectively agreed upon. This begs the question: can other third-party rating systems command a premium based upon strategies that focus more on protecting human health and boosting productivity rather than solely environmental impact?

In 2022, MIT's Real Estate Innovation Lab studied this question and published research findings that healthy building effective rents transact between 4.4 and 7.7% more per square foot than their nearby unhealthy neighbor peers. Further, the premium for healthy spaces is independent of all other factors, such as LEED certification, building age, renovation, lease duration, and submarket. This suggests that certifications such as WELL and Fitwel should also contribute to superior asset values.

To test this theory, we set out to determine whether, all else being generally equal, office buildings with higher walk scores had greater relative liquidity and stronger pricing than those with lower walk scores.

Utilizing the same three Walk Score bands as is applied by Fitwel in its Workplace Certification program, we looked at transaction activity for multi-tenant office buildings of 500,000 sf or greater built 2000-present that sold in the last five years to account for differences in quality related to year of construction and size.



WHY WALK SCORES?

Walk Scores measure the walkability of any address using a system that awards points based on the distance to amenities in critical categories such as schools, shops, and restaurants, with scores ranging from zero to 100.

Walk Scores are a critical component of properties achieving Fitwel Certifications. For an office building, locations must be in an area with a Walk Score of at least 50, with higher points awarded at the 70- and 90-point intervals.

What we found is that over 70% of buildings with the above-outlined parameters that transacted in the last five years nationwide had a Walk Score above 50 (130 out of the initial 182 tracked in RCA); in fact, 120 of the 130 buildings remained in the data set when we moved the sliding scale up to a minimum 70 Walk Score. Moving up to a minimum 90 Walk Score thinned the proverbial herd further, with 94 of the initial 182 transactions making the cut.

Naturally, causation does not imply correlation. It is possible that the reason the lion's share of office buildings that transacted during this period had Fitwel-qualifying Walk Scores is simply that those were the properties posted for sale, and that the sales were prompted by other drivers (end of closed-end funds, maximum value creation, 1031-exchanges, etc.). Nevertheless, their dominance in the transaction set at least suggests there is a deep appetite for walkable properties.



There is a clear premium in the average sales price per square foot. Across transactions over the last five years, as the Walk Score improves, so too has the price achieved upon sale; in fact, buildings with a walk score of 90 or greater achieved a 54% per-square-foot sales premium relative to all similarly aged and sized buildings that sold during the same period (Exhibit 1). While we cannot discount the heterogeneity of individual buildings, there is at least some evidence to suggest that all else being equal, more walkable properties should command higher values.

This premium more than helps to justify the nominal costs of achieving these certifications. Healthy building certifications have costs associated with project registration and fees paid to the certification body and can potentially need support from outside consultants. Hard costs may also arise if changes are needed during design or construction to meet the standard. Typical fees for Fitwel certification range from \$7,000 to \$11,000, plus consultant fees. WELL certification fees start at \$9,000 and can be substantially higher based on the square footage of the project.

Healthy Buildings at ARA

ARA set a goal of achieving healthy building certifications across the entire multitenant office portfolio in 2022. Through a combination of WELL Health & Safety, Fitwel, and Fitwel Viral Response Module certifications, ARA met its goal and now has over 6.5 million square feet certified.

Building Spotlight

Foundry Square III¹, San Francisco, CA

Foundry Square III has excelled in a number of Fitwel's Health Impact Categories that have positively impacted its occupants and the surrounding community including:

- Increasing Physical Activity
- Promoting Occupant Safety
- Impacting Surrounding Community Health
- Reducing Morbidity
- Supporting Social Equity for Vulnerable Populations
- Instilling Feelings of Well-Being
- Enhancing Access to Healthy Foods



Specific strategies employed at the building include:

- Walk Score of 98, which provides occupants with access to nearby amenities such as parks, restaurants, transit stops, and retail shops.
- Located within ½ mile of a public transit stop, which is associated with an increase in physical activity, stress reduction, injury prevention, improved air quality, community health, equity for those who cannot drive or afford private vehicle use, and enhanced access to amenities.
- Secure bicycle parking and access to commuter showers and lockers, which encourages occupants to use alternative commuting methods as opposed to single occupancy vehicles.
- Provides occupants with access to parks, walking trails, a farmers' market, and gardens, which encourage occupants to enjoy the outdoors benefiting their mental, physical, and social health.
- Context appropriate lighting at building entrances and along the building exterior, which reduces opportunity for crime and contributes to increased perceptions of safety for occupants.
- Publicly accessible cafe and activated plaza on the main floor, increasing pedestrian activity, social interaction, and community engagement.
- One of the nation's largest living walls comprised of 12,500 plants in the lobby area.
- Accessible and safe stairs that may contribute to increased daily physical activity for occupants.
- Implemented Indoor Air Quality policies that cover all topics included in the Fitwel rating system including a tobacco and smoke-free building policy and a Green Purchasing policy.
- Implemented regular cleaning protocols in break rooms and restrooms to reduce transmission of bacterial infections. Providing regular occupants with access to a common break area contributes to increased opportunities for occupants to step away from their desk, improving overall mental health.
- Provides a universally accessible clean water supply in regularly occupied spaces. Access to water improves occupant hydration and decreases consumption of sugar-sweetened beverages.
- Maintains a comprehensive emergency response plan and includes certified first responders on staff, which improves coordination and timeliness of emergency response, increasing occupant safety during emergency situations.

¹ The above represents all Fitwel certified office properties in the portfolios managed by ARA with a 2-star rating.

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