



REIT Industry ESG Report

June 2019



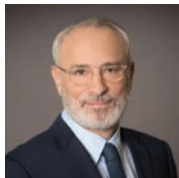
Cover top-left: Brookfield Properties, New York by Gehry, 8 Spruce Street, New York, NY

Cover top-right: Kilroy Realty, 350 Mission St, San Francisco, CA

Cover lower-left: Hersh Hospitality Trust, Winter Haven, Autograph Collection, Miami Beach, FL



Leadership Statement



Steven A. Wechsler
President & CEO, Nareit



Sandeep Mathrani
2019 Nareit Chair
CEO, Brookfield Properties Retail
Vice Chairman, Brookfield Properties

There are clear and compelling reasons for companies across all industries to implement environmental, social, and governance (ESG) best practices. Investors, policymakers, regulators, and the public at large are increasingly looking to corporate America to do its part.

In the past, the focus was on a company's environmental footprint, primarily its energy usage and efficiency. However, like most things, the scope has broadened and with it have come increased expectations and responsibilities. What was once classified as "sustainability" has evolved and expanded to include environmental sustainability, social responsibility, and responsible governance practices.

For real estate owners and operators, these principles are important components of doing business. Real estate houses the economy and is the very foundation of society. Real estate is not just the physical places where we live, work, and spend our leisure time; it helps unite and define local communities and provides an important investment resource to millions of Americans.

Since they were created in 1960, real estate investment trusts (REITs) have established a track record of environmental stewardship, value creation at the community level, good governance, and transparency and accountability through public disclosure. REITs have proven to be both sustainable investments and investments in a sustainable future. And, as responsible actors and owners, REITs help steer ESG performance within the real estate industry as a whole.

ESG best practices are not just good for the planet and its inhabitants but are also good business. Lowering energy and water use, investing in one's workforce and strengthening internal governance mechanisms are just a few of the many ways REITs contribute to bottom-line performance. And more often than not, these kinds of practices support further investment, brand loyalty, and talent and tenant attraction and retention.

Investors are increasingly evaluating companies based on specific ESG-related criteria and the subset focused on "responsible investments" continues to grow. That is why it is so important that the REIT industry is not only recognized for the efforts already underway, but that the industry, collectively, continues to improve reporting and performance to better align with investor interests in this area.

Reviewing the state of ESG practices within the REIT industry, there are clear strengths as well as opportunities for improvement. With this inaugural industry report, Nareit aims to provide an overview of the ESG performance of U.S. listed REITs within the broader real estate industry, as both a baseline from which to navigate, and a springboard for further engagement.



Alexandria Real Estate Equities, 100 Binney Street, Cambridge, MA

Duke Realty Corporation,
2010 Broening Highway, Baltimore, MD



Credit: Depositphotos



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About this Report

Organized by the environmental, social, and governance (ESG) criteria that are standard measurements of sustainability performance, this first annual report of industry ESG performance aims to provide an overview of the state of sustainability efforts in the publicly traded U.S. REIT industry.

The report is intended to serve as a practical tool and performance baseline for industry stakeholders, while highlighting the significant contributions that REITs and the broader commercial real estate industry make to sustainability efforts.

WHAT IS A REIT?

A REIT is a company that owns, operates, or finances income-producing real estate. Modeled after mutual funds, REITs provide investors the chance to own valuable real estate, present the opportunity to access dividend-based income and total returns, and help communities grow, thrive and revitalize.¹

How Do We Define ESG?

Nareit defines “ESG” as environmental sustainability, social impact, and good governance. This report encompasses all components of an organization’s environmental, social, and governance policies, practices, and performance.

In this report, “ESG” is also used synonymously with “sustainability”.

The REIT industry prioritizes responsible and effective management of environmental, social, and governance issues to help drive return on investment for shareholders and long-term value for employees and communities.

WHAT ARE ESG CRITERIA?

Environmental, social, and governance (ESG) criteria are sets of widely recognized topic areas and metrics used to manage, monitor, and report on an organization’s sustainability performance.

Environmental refers to an organization’s processes, policies, practices, and impact related to the natural environment.

Social refers to an organization’s processes, policies, practices, and impact with regard to the people – both internal and external – with whom it interacts.

Governance refers to an organization’s processes, policies, practices, and impact with regard to its organizational design, transparency measures, policies, protocols and procedures, and formalized governing bodies, roles and responsibilities.²

METHODOLOGY

The following primary data sources were used, supplemented by industry research, as cited throughout the report.

2018 REIT ESG Dashboard, Nareit

ESG performance metrics from the top 100 U.S. equity REITs by market capitalization, based on publicly available and voluntarily disclosed data

2018 Member Survey, Nareit

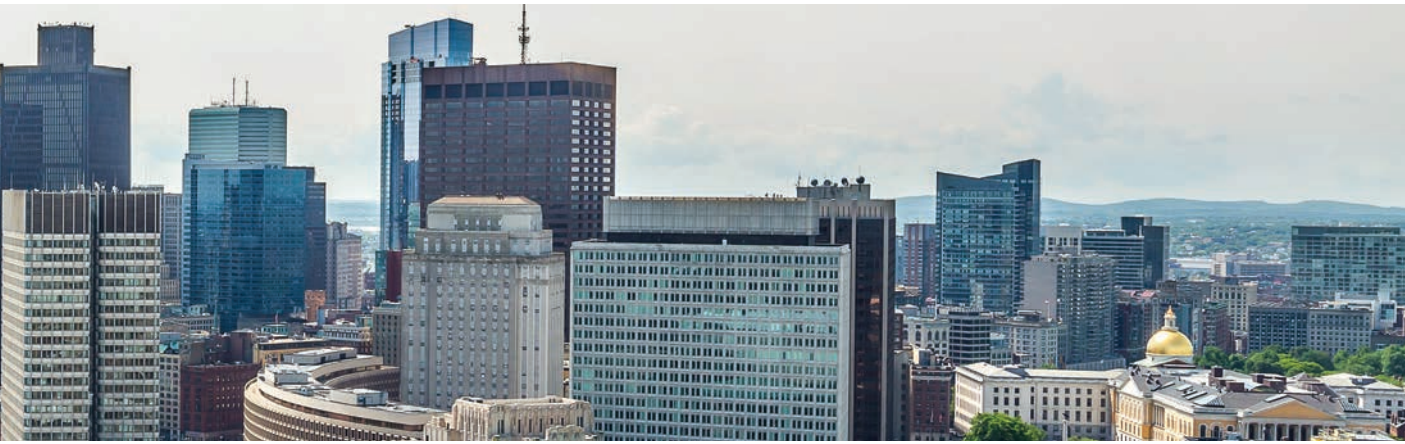
Voluntarily-reported data from 48 Nareit-member U.S. equity REITs via an electronic survey

2018 ESG Forum Live Survey Results

Voluntarily-reported data from 52 Nareit-member U.S. equity REITs via an in-person survey

2018 GRESB Portfolio Analysis Report

Industry-leading benchmark of ESG performance based on voluntarily-reported data from 52 U.S. equity REITs



AvalonBay Communities, View from North Station, Boston, MA

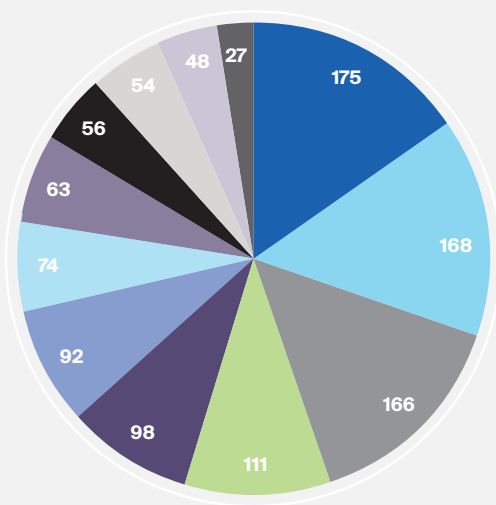
AT A GLANCE: REITs & Real Estate

- Commercial real estate is estimated to be the third largest asset class at 17% of the U.S. investment market.
- The commercial real estate market's estimated total dollar value is over \$15 trillion. Of this amount, REITs own an estimated \$3 trillion of gross assets.³
- REITs contribute an estimated 2.3 million full-time jobs in the United States.⁴
- REITs comprise 20% of the real estate industry.⁵
- REITs span more than a dozen real estate sectors including retail, residential, infrastructure, and health care.



Credit: Depositphotos

Total REIT Equity Market Cap by Sector (\$M)⁶



Sector	Market Cap (\$M)
Retail	175
Residential	168
Infrastructure	166
Health Care	111
Office	98
Industrial	92
Data Center	74
Self Storage	63
Diversified	56
Lodging	54
Specialty	48
Timberland	27



Cousins Properties, Cousins Terminus, Atlanta

Reporting & Disclosure

GGP, Inc., Ala Moana Center, Hawaii

The industry is actively reporting on sustainability performance.

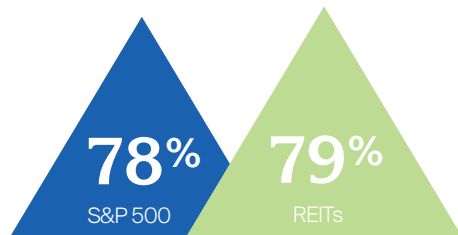
REITs are publicly reporting their sustainability performance with greater frequency, demonstrating a steadfast commitment to transparency and accountability.

GRESB is the most widely used sustainability disclosure platform by REITs and publicly listed real estate companies.⁷

In 2018, REITs most frequently reported to GRESB.

Half, or 26, of U.S. REITs and listed property companies that reported to the GRESB Real Estate Assessment in 2018 received an A-level disclosure score, demonstrating an ingrained and growing commitment to transparency in the industry.⁸

REITs are aligned with sustainability reporting rates of the S&P 500.



78% of all companies listed on the S&P 500 reported on their sustainability practices in their most recent reporting period⁹

79% of REITs report and disclose on matters related to sustainability¹⁰

NAVIGATING ESG REPORTING FRAMEWORKS:

After a thorough evaluation of the most relevant, recognized, and utilized ESG reporting frameworks used to evaluate REIT and real estate performance, a Nareit study has identified the following most frequently cited KPIs for environmental, social, and governance reporting criteria.*¹¹

Environment

- Climate Change Opportunities and Risk
- Greenhouse Gas (GHG) Emissions
- Environmental Policy
- Energy
- Environmental Management System

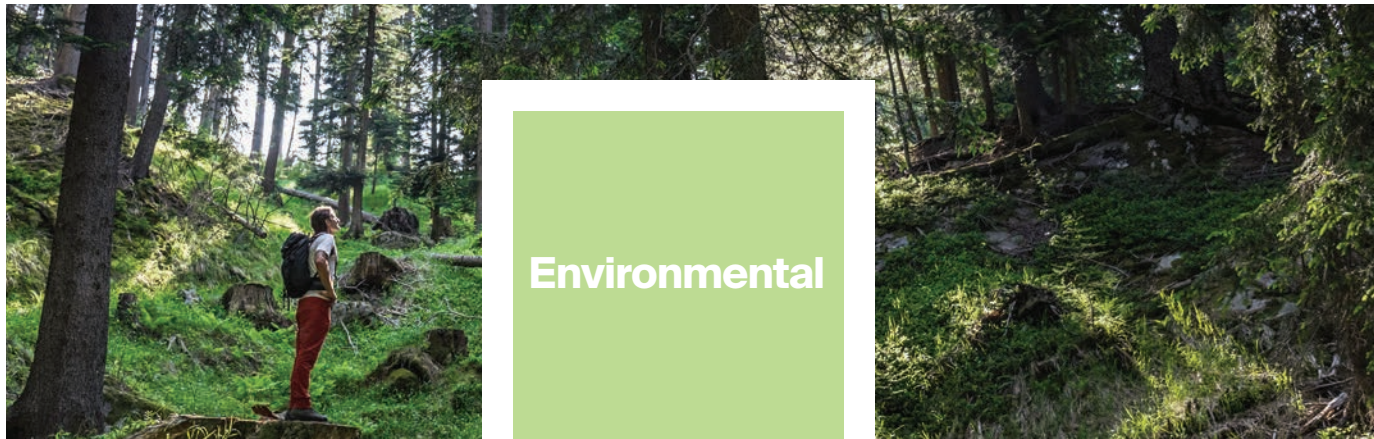
Social

- Supply Chain
- Stakeholder Engagement
- Health and Safety
- Workforce Development/ Human Capital
- Diversity and Equality

Governance

- Compensation Policy
- Governing Policy
- ESG Reporting Standards
- Board-Level Oversight—ESG
- Governance Risk Assessment

* Full descriptions of each KPI may be found in the Glossary on page 40.



Credit: iStock

Building on Enduring Environmental Stewardship

As demonstrated by a century of environmental leadership, the real estate industry has been and continues to be a responsible, accountable member of society. REITs have historically prioritized efforts to manage environmental risks and impacts by introducing environmentally friendly practices and standards, including efficient energy and water use, management of emissions and effluents, and the adoption of renewable energy technology.

ENVIRONMENTAL

Environmental refers to an organization's processes, policies, practices, and impact related to the natural environment.¹²

Early 20th Century:

Innovative window designs were invented for use in skyscrapers to reduce heating and cooling needs in buildings such as the NYC Flatiron Building and New York Times headquarters¹³

1960:

In 1960, REITs were created by Congress in order to give all investors the opportunity to invest in large-scale, diversified portfolios of income-producing real estate.¹⁴

1970s:

Institute of Architects researches passive design elements and technological solutions to save energy in new and existing structures¹⁶

1972:

The Nareit REIT Index debuts in 1972 as the first benchmark available to REIT investors.¹⁵

Environmental Leadership over the Decades

The real estate industry has sought to create long-term value by proactively managing and mitigating inherent risks, which has driven an industry-wide culture of leadership in environmental responsibility and sustainability management.

In addition to keeping pace with national regulatory reforms, the U.S. real estate industry and REITs specifically have regularly and proactively championed innovative design and resource efficiencies that reduce negative impacts and risks to the natural environment.

2018:

GRESB participation totals 903 entities and 79,000 assets²⁵

2016:

The Sustainability Accounting and Standards Board (SASB) launches the Real Estate Owners, Developers, & Investment Trusts Sustainability Accounting Standard²⁴

2009:

The Global Real Estate Sustainability Benchmark (now GRESB) was created to provide institutional investors with actionable information and tools to monitor and manage sustainability risks of real estate and infrastructure investments. Over 300 entities and 21,000 assets participated in GRESB in its first year.²³

2005:

Energy Policy Act (EPACT) requires federal agencies to purchase ENERGY STAR products or energy-efficient items

The Green Building Initiative (GBI) rating system enters U.S. market²²

2000:

USGBC, modeled after BREEAM, introduces LEED rating system to advance environmental performance of new constructions²¹

1993:

U.S. Green Building Council (USGBC) was founded to promote sustainable practices in the real estate industry²⁰

1990s:

Building Research Establishment's Environmental Assessment Method (BREEAM) was founded to assess, rate and certify sustainable buildings in the U.K.¹⁸

1992:

ENERGY STAR certifications were established¹⁹

1980s:

Green product standards were developed to mitigate indoor environmental quality and toxicity¹⁷

Green Building Certifications Strengthen REIT ESG Performance

The World Green Building Council estimates that new green buildings and green retrofits decrease annual operating costs by an average of 8% and 9%, respectively, reaffirming the financial value of sustainability in real estate.²⁶

More than three-quarters of REITs pursue and achieve green building certification, in recognition of the value of actively addressing the environmental impact of their assets.²⁷ Green Building certifications are awarded to buildings that have been built, retrofitted, or operated in an environmentally responsible and resource-efficient manner.

79% OF REITS OWNED GREEN BUILDINGS IN 2018, WHICH WERE CERTIFIED BY AT LEAST ONE OF THE FOLLOWING CERTIFICATION BODIES:

- LEED
- ENERGY STAR
- BREEAM
- CASBEE
- BOMA
- HQE23²⁸



BOSTON PROPERTIES:

Green Building Leaders

Boston Properties, the largest publicly traded developer, owner, and manager of Class A office properties in the U.S., has a long history of developing and operating properties that are certified under the U.S. Green Building Council LEED rating system. Since 2008, Boston Properties has certified over 21 million square feet of its current portfolio at the highest Gold and Platinum levels.

In 2018, the company achieved LEED Platinum certification of Salesforce Tower, the 1.4 million-square-foot, 61-story office tower that serves as the new headquarters of Salesforce in San Francisco. The project earned more points under the LEED Version 3 rating system than any other project in the San Francisco Bay Area and is the highest rated new skyscraper in the State of California.

Salesforce Tower features:

- Energy efficient architectural and mechanical systems designed to reduce energy costs 30% below California's Title 24 Building Energy Efficiency Standards;
- A state-of-the-art air distribution system with outdoor air intakes at each floor and low horsepower fans for ventilation and free cooling; and
- The largest onsite blackwater treatment system in a commercial high-rise building in the U.S. The system is expected to save up to 30,000 gallons of fresh water a day and 7.8 million gallons a year.

Salesforce Tower has been described as a new benchmark for energy, water, and indoor environmental quality performance.^{29, 30}

Boston Properties, Salesforce Tower, San Francisco, CA



Kilroy Realty Corporation, 350 Mission St, San Francisco, CA



ALEXANDRIA REAL ESTATE EQUITIES: Green Building Leaders

As of March 31, 2019, 51% of Alexandria Real Estate Equities, Inc.'s total annual rental revenue comes from LEED projects. Alexandria also targets LEED Gold or Platinum certification on all new, ground-up development projects.³¹

To this end, Alexandria has implemented the following environmental leading practices in their operations, building designs, and property management:

- Commitment to SMART energy, carbon, water, and waste reduction goals;
- Partnerships with tenants and local community programs to develop innovative strategies to meet environmental targets;
- Rigorous performance monitoring of air, water, and light qualities.

Alexandria's healthy building goal is to achieve healthy building certification of 50 properties by 2025.³²

Alexandria Real Estate Equities, Inc., Campus Pointe by Alexandris, San Diego, CA.

REITs Prioritize Emission Reductions

Real estate development and operation play a role in the global GHG emissions, which includes carbon, methane, nitrous oxide, and fluorinated gas emissions.^{33,34} REITs have recognized this fact and have taken strides to reduce their use of fossil fuels and resulting emissions. Within the past three years, REITs report having made steady progress in this area.

REITs and other publicly listed real estate companies are working to reduce their GHG emissions, underscoring the industry's leading commitment to climate risk mitigation and meaningful action toward climate resiliency.

IN 2017, REITS REDUCED THEIR OVERALL GREENHOUSE GAS (GHG) EMISSIONS BY 2.2% OR

166,939 TONNES

WHICH IS THE EQUIVALENT OF A LIFETIME OF EMISSIONS FROM

35,294 AUTOMOBILES³⁵



KILROY REALTY: Carbon Neutral Operations Goals

Kilroy Realty has made a commitment to address the impact of building-related carbon emissions.

At the 2018 Global Climate Action Summit, Kilroy set a goal to exceed its previous Science-Based Target initiatives for GHG reduction and pledged to establish carbon neutral operations by the end of 2020.

Kilroy has laid out a three-step strategy to achieve its goal of carbon neutral operations:

1. Maximize onsite energy reduction initiatives to continuously reduce overall energy consumption;
2. Capitalize on opportunities to install onsite solar and batteries;
3. Add capacity to the grid through renewable power purchase agreements.^{36, 37}

Kilroy's ambitious Science-Based Targets demonstrate the opportunity for lasting impact within the real estate industry.

Kilroy Realty, Skyline Tower, Seattle, WA

SL GREEN:

Generating Impact Through Emission-Reducing Activities

SL Green's sustainability strategy is aligned with the future resiliency of New York City, as the company invests in energy efficiency projects, deploys cutting-edge technology, and operates around the transportation hubs that are at the heart of the city's vitality.

As the largest owner of commercial real estate in New York, SL Green has committed to reducing GHG emissions intensity 30% portfolio-wide by 2025.

To meet this goal, SL Green has invested over \$66 million in energy efficiency projects since 2010, including upgrades to HVAC, BMS, and lighting systems, and installing VFDs.

Generating Impact:

- SL Green installed an ice plant at 11 Madison Avenue to reduce daytime electricity use and alleviate the strain on the electrical grid. The ice plant will reduce carbon emissions by 1.4 million pounds which is equal to removing 120 cars from the road each year or the planting of 186 acres of trees.
- SL Green partnered with Viacom at 1515 Broadway in the mayor's Carbon Challenge and committed to a 30% reduction in GHG emissions by 2025. In conjunction with a central plant upgrade, BMS upgrade, and steam room insulation, a 26% energy reduction and 27 point increase in ENERGY STAR score were realized.³⁸

SL Green, 1515 Broadway, New York, NY
SL Green, 100 Park Avenue, New York, NY



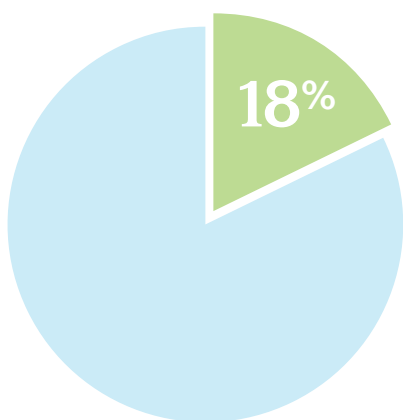
REITs Provide Value Through Energy Efficiency

According to voluntarily disclosed data, the majority of REITs have reduced their energy consumption every year for the past three years, which is reflected in a 2% reduction in absolute energy consumption amongst REITs in the past year, or the equivalent of energy usage from 31,223 homes.³⁹

REDUCING ENERGY CONSUMPTION PROVIDES LONG-TERM VALUE BY:

- Enhancing operational efficiency of building systems to extend their lifespan and,
- Translating energy cost-savings to both owners and residents.⁴⁰

One method for reducing energy consumption and emissions that is becoming more common in the real estate industry is the use of on-site renewable energy, which includes solar and wind.



Percentage of REITs with onsite renewable energy in their portfolios ⁴¹



Caption: Prologis, International Park of Commerce, 188 S. Mountain House Parkway, Tracy, CA 95377



Santana Row, Federal Realty Investment Trust, 356 Santana Row #1005, San Jose, CA 95128



EQUINIX:

Harnessing Renewable Energy



Equinix is a global data center and interconnection provider with more than 200 data centers across five continents. As data centers are energy-intensive operations, Equinix strives to reduce its environmental footprint and help its customers operate more sustainably.

Equinix has pledged a long-term goal to use 100 percent renewable energy across its global operations.

In 2018, Equinix covered approximately 90 percent of its electricity consumption with equivalent renewable energy purchases. Equinix's strategy for reaching 100 percent renewable energy coverage is based on five principles:

1. Utilize renewable and low-carbon energy sources;
2. Prioritize local sources of renewable energy across its diverse operating regions;
3. Prioritize new or recently built renewable energy sources;
4. Seek markets with favorable renewable energy policies when mapping new data center locations; and,
5. Advocate for utilities and suppliers to bring online more renewable generation in Equinix locations.^{42, 43}

As a result of Equinix's global renewable energy purchases, customers at over 150 locations can reduce their carbon footprint through partnerships with Equinix.

Photo courtesy of Equinix

Energy Efficiency Creates Lasting Impact

FOR EVERY GWH OF RENEWABLE ENERGY CONSUMED IN THE U.S., AN AVERAGE OF

504.5 TONS

OF CARBON DIOXIDE ARE AVOIDED.⁴⁴



ESSEX PROPERTY TRUST:

Leveraging Leading Practice Energy Systems

Essex has developed 25 GREEN or LEED-designated properties, representing almost 8,000 environmentally sustainable units over the past decade.

Essex's newest development, 500 Folsom, has targeted LEED Silver certification, and exemplifies how Essex leverages leading practice energy systems to improve efficiency, decrease environmental impact, and create cost savings for tenants.

500 Folsom uses solar thermal technology to passively preheat water for the property, which improves water heating equipment efficiency and significantly reduces the energy demand on the grid. This system also serves to decrease the costs associated with hot water for the property's tenants, thereby generating both environmental and economic benefits.

Built with over 10% local materials and over 80% recycled materials in the unit flooring, 500 Folsom also features low-flow fixtures, energy-efficient appliances, LED lights, electric-vehicle charging stations, and a graywater recycling system that has been designed to offset water usage in the building for toilet flushing and landscape irrigation.

500 Folsom is the latest example of Essex's commitment to creating sustainable buildings for its residents and the environment.⁴⁵

Essex Property Trust, 500 Folsom, San Francisco, CA

SIMON PROPERTY GROUP, INC. :

Surpassing Energy Targets & Improving Efficiency



Simon is a global leader in shopping, dining, entertainment and mixed-use destinations. Sustainability is a business approach that enhances the communities in which the company operates, as well as long-term shareholder value, by embracing opportunities, improving the bottom line, and mitigating environmental and social risks.

To best achieve its environmental objectives, Simon's sustainability strategy includes bold goals for energy management, reduction and on-site generation. In 2018, the company achieved or surpassed all its initial energy targets, including improvement of both portfolio-wide energy efficiency and GHG efficiency by 5-10% by 2020.

Since 2003, Simon has achieved a 37% reduction in electricity consumption across the portfolio, which represents 363 million kilowatt hours. The company has also reduced portfolio-wide emissions by 45%,

which equals 261,169 metric tons of CO₂ and is inclusive of Scope 1 and Scope 2 emissions, as well as employee commuting and business travel Scope 3 emissions.

These results were achieved through targeted initiatives such as:

- LED retrofit projects at over 178 properties across the U.S.;
- Development and implementation of an energy benchmarking tool, used at enclosed centers across the portfolio;
- Pilot of on-site solar and energy battery storage projects at select sites across the U.S.;
- Ongoing energy audits and retro-commissioning across the portfolio; and
- Participation in demand response systems to reduce peak loads and provide additional capacity to the grid during peak hours ⁴⁶

Simon Property Group, King of Prussia, King of Prussia (Philadelphia), PA

Waste Reduction & Water Conservation Decrease Costs

WASTE

In 2018, REITs and publicly listed real estate companies reporting to GRESB maintained waste management practices in line with global averages and historic benchmarks.⁴⁷

U.S. REITS DIVERTED

48%,

OR 1,353,897 TONNES, OF ALL GENERATED WASTE FROM LANDFILLS IN 2018, WHICH IS THE EQUIVALENT OF THE AMOUNT OF WASTE GENERATED BY 1.83 MILLION U.S. CITIZENS IN 2018.^{48, 49}

Increased waste diversion avoids costs associated with waste disposal by an average of \$50 per ton in the United States and significantly reduces GHG emissions associated with waste management.⁵⁰

MACERICH: On the Path to Zero Waste

Macerich, one of the largest owners, operators, and developers of major retail real estate in the United States, has set a goal to achieve zero waste at its facilities by 2030. As an initial target, Macerich aims to increase its waste diversion rate to over 70% by 2025 and to reduce overall waste generated by 50% from its 2015 baseline levels.

Macerich's innovative waste mitigation strategy is focused on reducing waste at the source. The company collaborates with tenants at each property to implement waste reduction initiatives, such as:

- Participating in community waste programs and waste-to-energy programs;
- Using biodigesters to divert waste from landfills;
- Hosting e-waste community events; and
- Leveraging existing programs in partnership with local organizations to support community job initiatives in waste management.

In 2018, Macerich launched a pilot program with Glass King Recovery and Recycling at its five Arizona centers. Partnering with each property's restaurants – high producers of glass waste – the pilot program saw more than 782,017 pounds of bottles and glass waste being collected and kept out of Arizona landfills.

Between 2014 and 2018, Macerich recycled 93,408 tons of waste, including waste to energy, an annual average of 33% of all waste generated in its facilities.⁵³



Macerich, Los Cerritos Center, Cerritos, CA

WATER

REITs are consistently working to decrease their water use through targeted initiatives and risk management programs.

Decreasing water consumption across all aspects of real estate has far-reaching implications for all stakeholders. Not only does water use reduction result in operational cost-savings that can be passed on to shareholders and tenants, but such measures also improve long-term property resiliency to withstand the effects of water shortage events.⁵¹

Voluntarily reported and publicly disclosed performance information shows targeted efforts to reduce water use in REIT properties in 2018, representing significant contributions towards preserving this valuable resource.

BASED ON 2018 GRESB REPORTING, REITs AND PUBLICLY LISTED REAL ESTATE COMPANIES DISCLOSED A TOTAL OF 3,160,627 CUBIC METER REDUCTION IN WATER USE, WHICH IS THE EQUIVALENT OF

1,264

OLYMPIC SWIMMING POOLS OF WATER SAVED⁵²

DIGITAL REALTY:

Leveraging Water Conservation Efforts to Improve Energy Efficiency and Reduce Costs



Digital Realty,
Main Street 365,
San Francisco, CA

Digital Realty performed a cooling tower cleaning and disinfection (C&D) program at its data center on its Clifton, NJ campus in 2016, in coordination with Nalco Water. The C&D helped Digital Realty realize significant energy, water, and cost savings as part of a comprehensive water treatment and waterborne pathogen risk management program.

Following a thorough cleaning of heat transfer surfaces, condenser water temperatures were reduced by 6°F – from a pre-cleaning temperature of 84°F to a post-cleaning temperature of 78°F. This improvement was expected to deliver \$100,000 in energy savings in the first year.

This reduction resulted in the realization of a 10% energy efficiency improvement and an energy cost reduction of \$100,000 per year in chiller operations.

Additionally, as a result of the C&D program, the distribution deck of one of the cooling towers was cleared and flow was restored, reducing water wasted due to overflow conditions. This fixed the overflow condition and reduced excess water consumption by approximately 1 million gallons of water over a period of four-and-a-half months.⁵⁴



Brookfield Properties, Radian Greenway, Boston, MA



Federal Realty Investment Trust, The Point, El Segundo, CA



REITs Create Lasting Social Impact

Publicly traded U.S. REITs incorporate social initiatives into their business models to create value for their own employees as well as the local communities where they own, operate, or finance real estate.

In addition to an earned track record of environmental stewardship, the U.S. REIT industry has elevated its reporting on social performance in recent years, demonstrating the far-reaching and long-lasting impact real estate can have in local communities.

SOCIAL

Social refers to an organization’s processes, policies, practices, and impact with regard to the people – both internal and external – with whom it interacts.⁵⁵

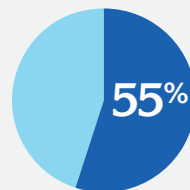
Social Performance Gains Traction in REIT Reporting and Disclosure

REITs have demonstrated commitment to transparency and accountability through increasing rates of social engagement reporting and disclosure.

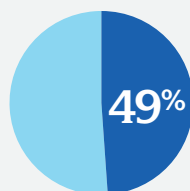
REITs report on a variety of social metrics, including social impact, workforce development, diversity and equal opportunity, and health and safety policies.

There was a 1% increase in the reporting and disclosure of tenant engagement initiatives and KPIs by REITs in 2018, and a 2% increase in the reporting and disclosure of community development initiatives and KPIs.⁵⁶

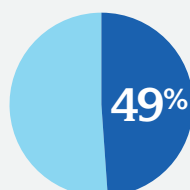
To better communicate the positive social impact generated by the real estate industry, REITs and publicly listed real estate companies will need to report and disclose core social KPIs and performance metrics in future years.



In 2018, 55% of REITs disclosed metrics on worker development programs, employee training, and health and wellness programs,



49% of REITs reported on their Diversity & Equal Opportunity policies, and



49% of REITs reported on their Health & Safety policies.⁵⁷

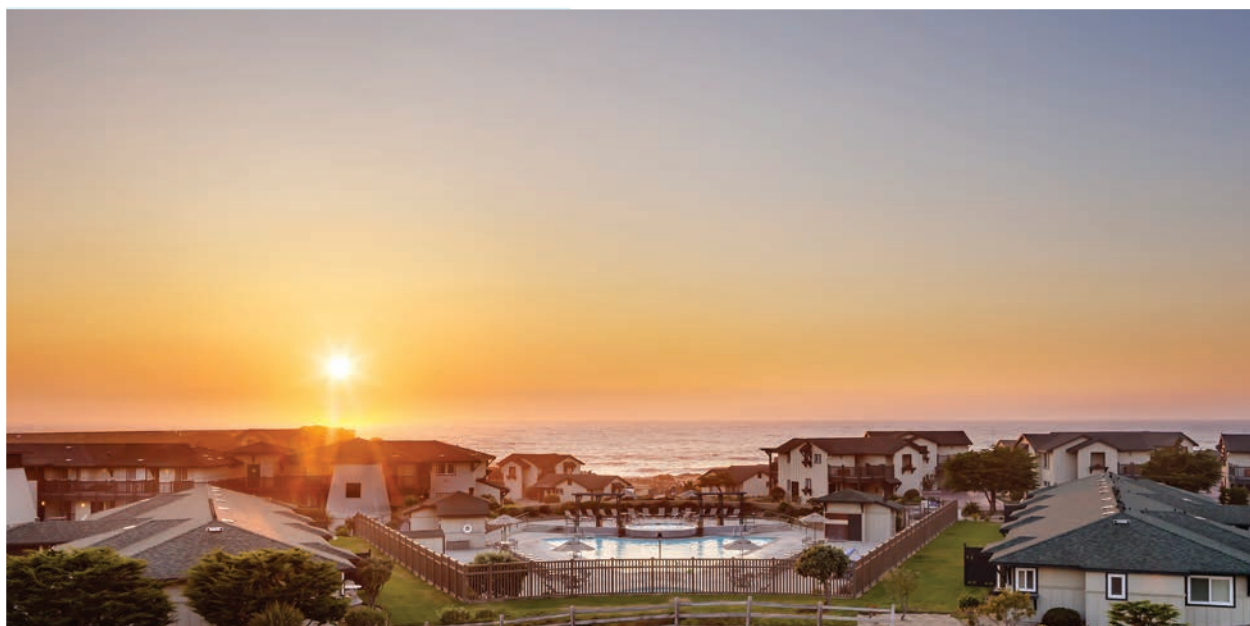
Real Estate Unites Communities

As the foundation of many communities, the social actions of the U.S. REIT industry have a far-reaching and long-lasting impact.

Through initiatives such as community outreach, tenant engagement programs, volunteering, and giving, REITs create lasting value for the communities in which they own properties.

90%

OF RESPONDENTS TO THE 2018 NAREIT MEMBER SURVEY SAID THEY HAD COMMUNITY ENGAGEMENT OR VOLUNTEERING PROGRAMS ⁵⁸



HERSHA HOSPITALITY TRUST:

Achieving the Triple Bottom Line

Hersha Hospitality Trust takes a diligent approach to pursuing the triple bottom line, which defines business success in terms of financial, environmental, and social performance, outcomes and impacts. Hersha's environmental and social initiatives, housed under its EarthView Program, are guided by the company's core value, "hearts that serve."

Capitalizing on the company's commitment to social purpose, Hersha's employees have volunteered over 14,200 hours in their local communities since 2015. Globally, Hersha takes action to improve access to

water in communities that need it most, leveraging the company's \$11 million in energy cost-savings, and sales from its innovative Earthview water bottle program, to fund its global programs.

In 2018, through the EarthView Water Program, Hersha provided clean water to 1,700 people for 21 years. Hersha has observed that the impacts of clean water access include increased access to education, improved economic opportunity, decreased health risks, and new agricultural possibilities.

Hersha's actions offer lasting value for the REIT as well.

Since formalizing its sustainability commitments and taking action against its values, Hersha has seen an increase in customer satisfaction rates, new talent attraction and retention, and number of bids won. ⁵⁹

Hersha Hospitality Trust, The Sanctuary Beach Resort, Monterey Bay, CA

Historically, structured and consistent tenant engagement around leading sustainability practices has resulted in an energy savings of 9% to 10% for commercial properties.⁶⁰

52%

OF RESPONDENTS TO THE 2018 NAREIT MEMBER SURVEY SAID THEY HAD TENANT ENGAGEMENT PROGRAMS⁶¹

JBG SMITH: Placemaking as a Strategy for Tenant Engagement and Community Wellbeing

JBG SMITH, a leading owner and developer of high-quality, mixed-use properties in the Washington, D.C. market, leverages the philosophy of placemaking to generate value and positive impact in every community in which it operates. The REIT's goal is to create places that address the needs of its tenants, residents, and visitors, as well as encourage environmental sustainability and community health and wellbeing.

For JBG SMITH, placemaking begins with a robust stakeholder engagement process, including "town hall-style" neighborhood meetings, surveys, and focus groups, in which prospective tenants and community members share their ideas, concerns, and commitments. The outcome of these engagements inform the design, aesthetic, and business approach that JBG SMITH incorporates in its developments, such as prioritizing the

inclusion of local companies, developing public parks and green spaces, and implementing targeted economic revitalization strategies.

For example, in JBG SMITH's North End Shaw developments, 72% of the total retail tenant mix is represented by locally owned and operated businesses, and 24% of the mix is owned by women and minority-owned businesses.

In National Landing, a multi-use, urban-transit oriented development, tenants are encouraged to walk to work and community members engage with tenants in retail establishments and green spaces. In turn, JBG SMITH has observed the following environmental and social impacts:

- Less traffic congestion and decreased emissions generated by employee commuting;
- Improvement in reported rates of tenant health and wellbeing; and
- Green building certifications have been attained for over two-thirds (68%) of the buildings in National Landing.⁶²

JBG Smith, L'Enfant Plaza Promenade, 500 L'Enfant Plaza, SW, Washington, DC



REITs Invest in Employee Development and Wellbeing

NEARLY **90%**
OF ALL NAREIT MEMBER SURVEY
RESPONDENTS REPORTED HAVING
EMPLOYEE TRAINING PROGRAMS ⁶³

Additionally, more than half of Nareit members offer a combination of employee training, health and wellness, and worker development programs. ⁶⁴



AVALONBAY COMMUNITIES:

Investing in Employees at All Levels

AvalonBay employs over 3,000 individuals and has made commitments to continuously support the professional development and career advancement of employees at all levels of the organization.

One initiative, designed to support the professional growth of employees at the associate level, is AvalonBay University.

AvalonBay University is a technical, management and compliance training platform that offers over 500 online and classroom courses.

In the 2018 reporting cycle, AvalonBay reported that 60,991 hours of training had been completed through the university, which equates to approximately 19.7 hours per associate staff member. ⁶⁷

AvalonBay Communities, AVA Theater District, Boston, MA



PROLOGIS:

Community Workforce Initiative Enhances Pipeline of Skilled Labor and Supports Local Communities

Prologis, the largest global logistics REIT, leases distribution facilities to 5,100 customers in 19 countries across four continents. As an extension of its commitment to deliver superior customer service while strengthening the places where it lives and works, Prologis launched its Community Workforce Initiative (CWI) in 2018.

CWI collaborates with local workforce development organizations, nonprofits and schools to offer individuals interested in careers in logistics, distribution and transportation the following opportunities:

- Mentorships
- Skills training
- Internships
- Job placements

Through CWI, Prologis is working with local partners on several initiatives. One initiative, in partnership with nonprofit EXP, aims to place over 150 high school students, from the Los Angeles and Long Beach area, in internships with logistics and transportation companies. The company is also launching the Prologis Trade and Logistics Lab in Miami, where more than 300 high school students will be offered experiential learning opportunities and internships. In Chicago, Prologis and the Quad County Urban League recently completed its first three-week program to prepare candidates with hands-on training for positions in material handling, inventory management, logistics, and customer service. Students in these programs receive job skills training and career guidance from industry experts.

Prologis' commitment to local community development has lasting value:

- Investing in a skilled workforce will enable the company's customers to address labor shortage issues and expand their talent pipelines.
- Development of career opportunities supports long-term economic growth in the communities where Prologis operates.^{65, 66}

Prologis, Kaiser Distribution Center, 13053 San Bernardino Avenue, Fontana, CA

Employee Development Programs Generate Long-Term Value

EQUITY RESIDENTIAL: Customized and Progressive Employee Development



Equity Residential creates workplace environments across its 310 properties where employees can constantly learn and grow.

To support this objective, Equity Residential provides specialized, progressive career development programs to its employees, including:

- The LEAD program, available to Equity Residential's managers since 1999, which focuses on customized leadership training and career growth planning;
- The LEAD Renew program, which is designed to build knowledge and sharpen the skills of employees later in their careers;
- The Ignite program, which offers tools to guide employees at the start of their career;
- The Accelerate program, which is a cross-functional professional development program designed to support employees across all levels of the organization; and
- Women in Leadership training sessions that help female employees capitalize on their strengths and overcome constraints.

Equity Residential also offers small-group and one-on-one coaching opportunities, and actively seeks feedback and recommendations from employees through annual surveys.

These leading employee development practices have had lasting impact – Equity Residential has some of the highest employee engagement and industry retention rates and has developed a pipeline of leadership within the company.⁶⁸

Equity Residential, River Park, Seattle, WA

AMERICAN TOWER CORPORATION: Hire Good People and Empower Them



American Tower Corporation, a global provider of wireless communications infrastructure, has a portfolio of over 170,000 multitenant communications sites and over 5,000 employees across five continents and 17 countries.

To best serve the needs of its diverse global workforce, American Tower sets the objective to hire good people and position them for professional success by investing in their development through a variety of programs that address business needs and align with the company's strategy:

- Foundational training and learning plans for new employees, which provide courses about the company and diversity and inclusion training;
- Compliance training for all new employees, including the ATC Code of Ethics and Business Conduct and Security Essentials courses;
- Courses for leadership development, access to the Harvard ManageMentor program, and other educational resources for all managers with direct reports;
- The American Tower Development Center, which offers over 1,000 online learning courses in five languages, and Rosetta Stone language training programs; and
- Customized job-specific trainings and sponsorship to attend relevant external trainings.

Finally, the company regularly engages its employees through biennial company-wide surveys, town hall meetings, "Ask the Chairman" communications, and team meetings, and adjusts its initiatives as needed based on the feedback from these engagements. American Tower believes, through development resources and engagement opportunities, its people are positioned for success.^{69, 70}



Governance

Practicing Robust Governance within the ESG Framework

REITs are implementing transparency and compliance programs, prioritizing sound management and leadership approaches, and adhering to the highest ethical standards.

In addition to their environmental and social performance strengths, REITs get high marks for their ethics and compliance programs, and are building on disclosure practices as well as ESG integration at the board and senior levels of management.

GOVERNANCE

Governance refers to an organization's processes, policies, practices, and impact with regard to its formalized governing infrastructure, transparency, roles and responsibilities, and accountability.⁷¹

REITs Are Committed to Sustainability at the Board Level

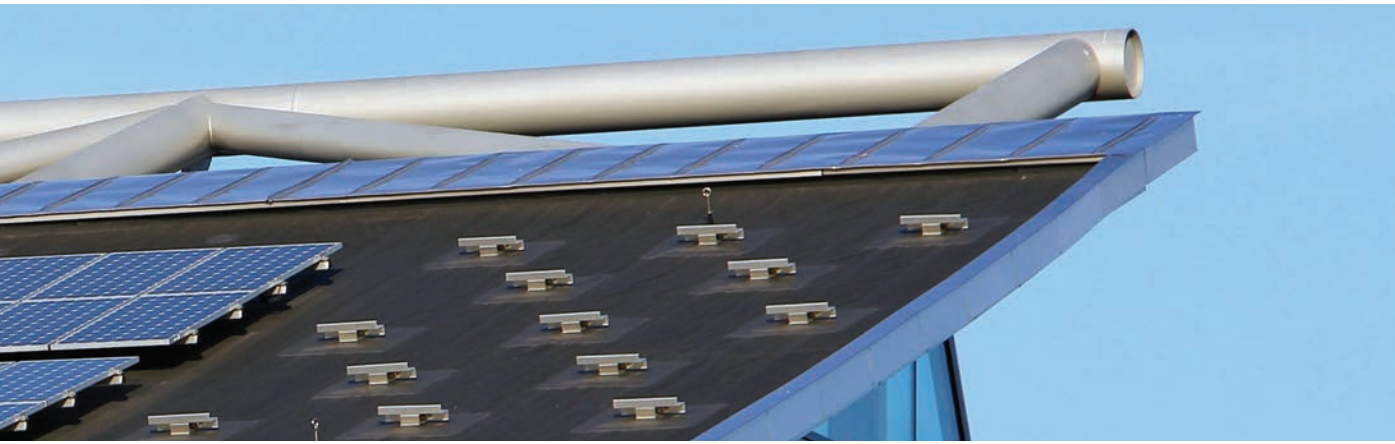
Based on industry surveys and leading publications, REIT Boards of Directors and senior management policies, practices, and participation match or exceed their S&P 500 counterparts.

According to an industry survey, REITs outperform U.S. corporate and publicly listed company averages in the area of board-level sustainability oversight.^{72,73}

Institutionalizing sustainability at the board level showcases an organizational commitment to embedding sustainability throughout the business culture and operations; increases accountability and commitments to sustainability targets, actions, and metrics; ensures appropriate deployment of resources and budgets; and builds synergies between business units.⁷⁴



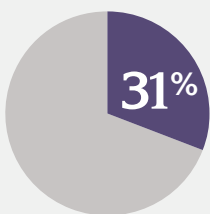
Kilroy Realty Corporation, 350 Mission, San Francisco, CA



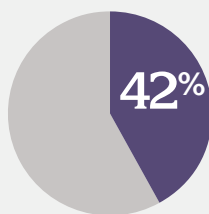
Credit: iStock



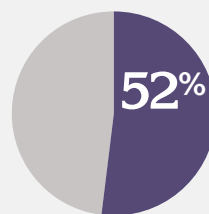
Brookfield Properties Retail, Ala Moana Center, Honolulu, HI



31% of the largest 600 U.S. companies have sustainability integrated as a board committee.⁷⁵



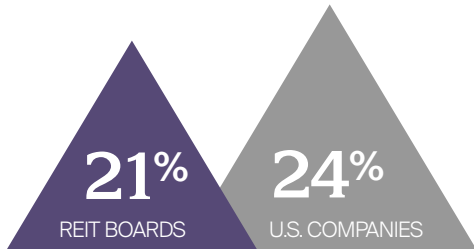
42% of the S&P 500 had a formal board committee overseeing sustainability in 2018.⁷⁷



52% of respondents to the Nareit ESG Forum Survey state that their organization has a board-level sustainability committee.⁷⁶

REITs Demonstrate Good Governance Through Board Diversity

In 2018, REITs made strides to diversify board constituency and to drive inclusion throughout their organizations.



Female representation on REIT boards has now reached 21% which is aligned with the 24% rate of female board participation of all publicly listed U.S. companies.^{78, 79}



WELLTOWER: Diversity and Inclusion

Welltower, an S&P 500 company focused on health care real estate, is committed to increasing and fostering diversity and inclusion in the workplace through a variety of leading practice initiatives, such as in its development of CORE (Creating Opportunities, Relationships and Excellence) Women's Network, which is designed to provide female employees with mentorship and training opportunities.

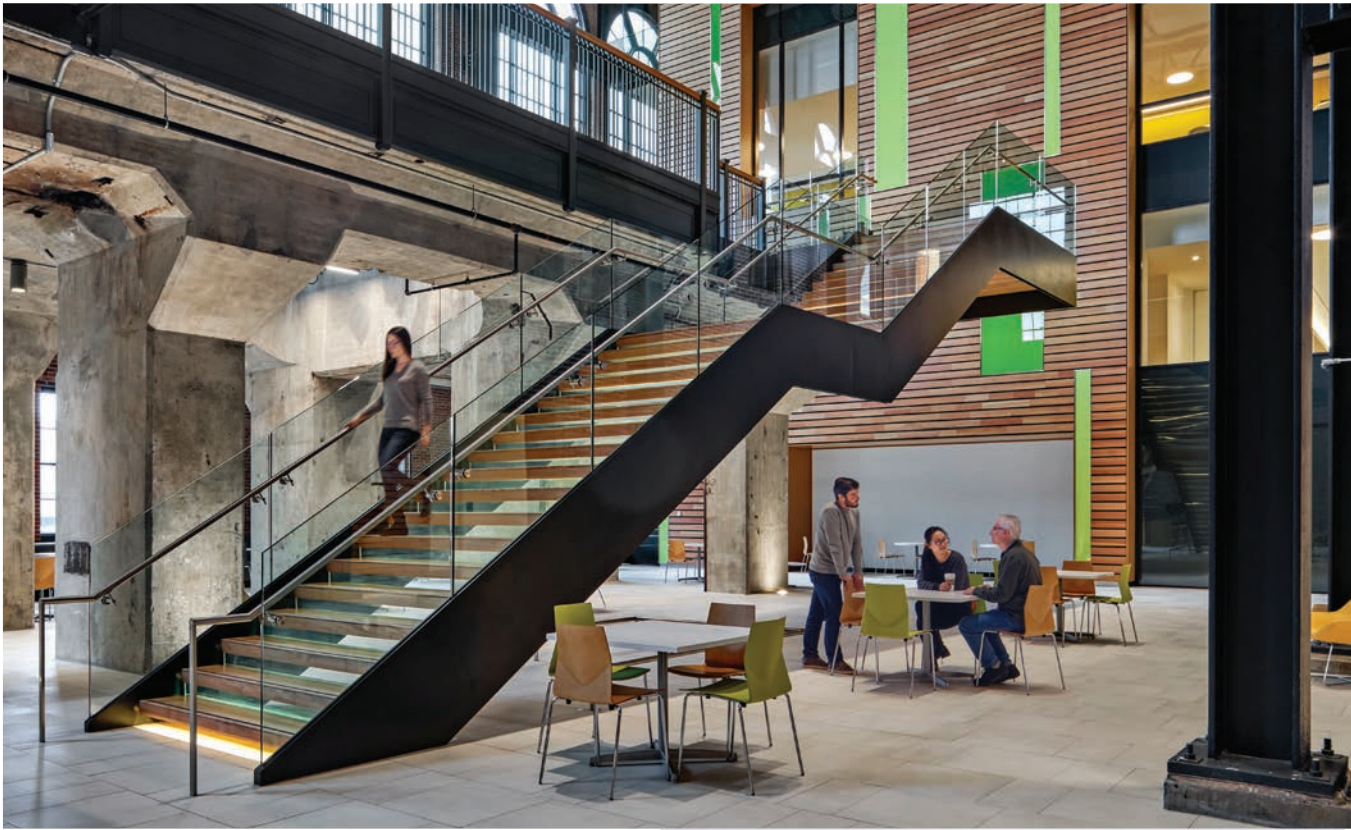
Leveraging its leading practice initiatives, Welltower had several landmark accomplishments in 2018, emphasizing its commitment to diversity and inclusion in the workplace:

- Tom DeRosa, Welltower CEO, signed on to the CEO Action for Diversity and Inclusion;
- Welltower was the first North American REIT to sign the UN Women's Empowerment Principles;
- The company announced two new female appointments to its board of directors, increasing its representation of female and minority independent directors to 55%.

The company's hiring and promotion efforts, designed to increase the diversity of its workforce, particularly in revenue generating roles, resulted in a new milestone in 2018: women now represent 45% of new hires placed in revenue generating roles.^{81, 82}

Welltower, Clearvista Lake Health Campus, Indianapolis, IN





VENTAS:

Board Diversity Drives Performance Improvement

To gain varied perspectives and bring together complementary experiences, Ventas actively seeks diversity in its workforce and board of directors.

When seeking new board members, Ventas applies broad selection criteria that allows for the consideration of a more diverse slate of candidates. These criteria include:

- Leadership experience in roles outside of the public company C-suite;
- Subject matter expertise in areas outside of Ventas's core industries of real estate and healthcare, such as public policy and capital markets;
- A heavier emphasis on applicable skillsets; and
- Individuals without prior board experience.⁸³

Applying these criteria, Ventas added two new female independent members to its board, both serving on their first public company board. The current nine member Ventas board is one-third female.⁸⁴

“Our Company is stronger and more effective for all stakeholders when we intentionally develop and recruit a diverse workforce at all levels of the organization,” said Debra A. Cafaro, Chairman and CEO of Ventas.

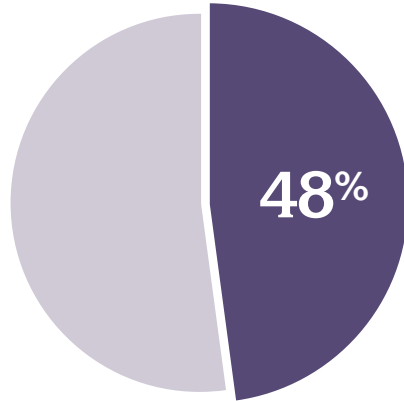
Ventas, South Street Landing, Providence, RI



REITs are Committed to Good Governance

98%

OF RESPONDENTS TO THE 2018 NAREIT MEMBER SURVEY SAID THEY HAVE A GOVERNANCE COMPLIANCE PROGRAM IN PLACE FOR ISSUES SUCH AS ETHICS AND ANTI-CORRUPTION⁸⁵



48% of REITs report on their formal ethics and compliance programs.⁸⁶

KIMCO REALTY CORPORATION: ESG Governance

Kimco Realty Corporation is one of North America's largest publicly traded owners and operators of open-air shopping centers.

In an effort to lead in corporate governance practices and sustainability performance, Kimco has instituted a formalized sustainability governance structure and company-wide ESG policy that address the environmental, social, and governance topics they deem most material to their organization.

Kimco's ESG policy is used to guide the organization and execution of its corporate responsibility program. Core components of the ESG policy and corporate responsibility program include:

- Proactive, annual stakeholder engagement through two-way dialogue, surveys, workshops, and focus groups;
- Annual materiality assessments used to guide the direction of the corporate responsibility program;

- Established sustainability purpose, governance, and goals with clear KPIs and defined management activities for ESG actions, including ethics and compliance; and
- A structured approach to reporting and disclosure with defined commitments to transparency, materiality, standardization and accuracy.

The outcomes of Kimco's ESG programs have included minimized expenses and added value and incentives for all stakeholders.⁸⁷



Kimco Realty Corporation,
Dania Pointe, Dania Beach, FL

Kimco Realty Corporation, Edgewater Commons, NJ

Supply Chain Management is an Opportunity for REITs

Companies with higher rates of supplier diversity have historically reaped noteworthy returns.

22% of REITs currently report on their supplier screening policies, which indicates an opportunity for the real estate industry to be more transparent and proactive about their supply chain management policies and practices through greater reporting and disclosure.⁸⁸

ON AVERAGE, COMPANIES WITH SUPPLIER DIVERSITY PROGRAMS YIELD

133%

GREATER RETURNS ON THE COST OF PROCUREMENT.

BROOKFIELD PROPERTIES:

Implementing a Supplier Diversity Program for Long-Term Impact

Acquired by Brookfield Properties in December 2018, Forest City Realty Trust created sustainable value by operating spaces where people, businesses, and communities thrive.

In addition to its environmental innovations, the company focused on engaging a diverse supplier base that enabled it to execute its strategy and benefit its neighborhoods in a more impactful way.

For all new construction, Forest City set supplier diversity and hiring goals that adhered to or surpass local requirements. For projects on existing properties, it required at least one diverse vendor to be included in the bidding process.

To evaluate and select locally based suppliers, Forest City utilized a supplier-locator database tool that allowed it to sort diverse suppliers by regions. The company also set internal goals to support the growth and success of minority- and women-owned businesses.⁹⁰

Brookfield Properties, Foundry Lofts, The Yards, Washington, D.C.





HOST HOTELS & RESORTS:

Environmentally Responsible Supply Chain Management

As a property owner and the world's largest lodging REIT, Host Hotels & Resorts actively engages with its more than 300 renovation and maintenance capex suppliers to foster innovative and environmentally responsible business practices through a variety of targeted policies, practices and initiatives, which include:

- Active assessment of suppliers' physical risks to inventory, resource availability and production capabilities including exposure to climate change volatility and extreme weather impacts;
- Evaluate sustainable alternatives to sourced renovation materials to include recycled and repurposed products, low VOC paints, locally manufactured products, and products with third-party sustainability certifications, whenever possible;
- Direct collaboration with suppliers and brands to identify opportunities for efficiency improvement, such as installing LED lighting, occupancy-based guestroom HVAC controls, and low-flow showerheads, toilets and faucets.

In 2017, 88% of Host Hotels & Resorts' furniture, fixtures, and equipment spend was represented by its strategic suppliers.

44% of Host Hotels & Resorts 2017 renovation material spend was on products that have sustainability attributes. ^{91, 92, 93}

Host Hotels & Resorts, The Don CeSar, St. Pete Beach, FL



Real Estate Working for You

Nareit seeks to actively encourage the development and adoption of effective environmental, social, and governance practices in real estate through its ESG knowledge-sharing and capacity-building initiatives.⁹⁴

Real Estate Sustainability Council

Nareit's Real Estate Sustainability Council (RESC) consists of Nareit corporate member sustainability thought leaders—representing all REIT sectors—with a mission to help shape and lead the REIT industry on ESG issues.



Dividends Through Diversity & Inclusion

Nareit's Dividends Through Diversity & Inclusion Initiative promotes the recruitment, inclusion, and advancement of women and other diverse groups in REITs and the wider commercial real estate industry. As part of this effort, the Initiative facilitates education and career development opportunities and promotes engagement programs for women and other diverse groups in the REIT and commercial real estate industries.

REIT ESG Dashboard

With the goal of communicating the U.S. REIT industry's ESG impact and progress, Nareit maintains the ESG Dashboard on REIT.com. The ESG Dashboard, developed in partnership with GeoPhy and updated annually, identifies and tracks company reporting of ESG key performance indicators (KPIs) for the U.S. REIT industry.

REITs own 2,000+
green certified buildings





Federal Realty Investment Trust, Assembly Row, Somerville, MA

Nareit ESG Forum

Nareit's annual ESG Forum is a hands-on collaborative workshop that provides Nareit corporate members the opportunity to advance the sustainability conversation and to better understand leading sustainability practices among their peers.



Leader in the Light Awards

Nareit's annual Leader in the Light Awards honor Nareit member companies that have produced superior, measurable results from the implementation of sustainable business practices.

Nareit Guide to ESG Reporting Frameworks

The Nareit Guide to ESG Reporting Frameworks helps Nareit members better understand and navigate the array of environmental, social and governance reporting frameworks. The inaugural guide, developed with assistance from AccountAbility, was released in 2019 and is available on REIT.com.







Conclusion

Investing in a Sustainable Future

Nareit's inaugural annual report on the REIT industry's ESG reporting and performance establishes a baseline and highlights the effort and commitment the industry has already made to being responsible corporate citizens.

REITs are trending toward greater investment, stronger performance, and more significant impact across all three pillars of ESG. It is also clear that there is no finish line when it comes to ESG efforts and that many of the elements discussed within this report need to be intertwined within the fabric of a real estate company's overall strategy. Individual companies, and the industry at large, will continue to raise the bar and address important issues going forward.

Further investment by REITs in sustainable assets and ESG best practices has tremendous potential to positively affect our environment and communities. REITs can enhance their reputation as transparent, accountable organizations through effective management of ESG performance and increased disclosure and reporting of important metrics sought by critical stakeholders.

The more we communicate and understand about our industry as a group, the more individual companies will be encouraged to share how their ESG efforts contribute to the industry's overall performance. Companies increasingly see the importance of disclosing their social and governance initiatives in the same manner in which they report on environmental performance.

Starting with this publication, Nareit looks forward to providing a productive annual assessment of industry-wide ESG efforts by REITs and continuing to engage industry stakeholders in this important conversation.



Glossary

BOARD-LEVEL OVERSIGHT—ESG:

- Outlines the roles and responsibilities of the company's board of directors specific to goal setting, strategy, and remuneration, among others. Disclosures include descriptions of the board's responsibility and oversight of the company's ESG performance.

CLIMATE CHANGE OPPORTUNITIES AND RISK:

- A company's strategy, planning and policies for climate-related business risks and opportunities. Disclosures explain the tools and methodologies companies use to identify, assess and address climate change, and how these approaches are integrated into overall risk management and business strategy.

COMPENSATION POLICY:

- Describes an organization's strategy and practices for compensation across the company—from line workers to C-suite and board members. Disclosures discuss incentive programs and targets generally, as well as incentives specifically related to ESG performance. Compensation data is disclosed, as well as descriptions of policies, strategies, and processes for remuneration.

DIVERSITY AND EQUALITY:

- Describes strategies and policies in place surrounding gender, diversity, and other workforce demography practices. Includes metrics on workforce demographics as well as diversity strategy throughout the organization. Specific focus on providing policies around workplace discrimination, gender, racial, and ethnic equality, diversity programs, and other workforce hiring and development practices.

ENERGY:

- Covers all energy-consumption related metrics and policies for a company. Disclosures include specific data and metrics on energy use and energy spend by source, with specific emphasis on renewable energy use. Disclosures cover programs and metrics related to energy reduction, efficiency and conservation for all company operations and products.

ESG REPORTING STANDARDS:

- Indicates whether or not an organization is publicly disclosing ESG information using frameworks (e.g. SASB, ISO, etc.), or if it is a member of international ESG-related compacts or agreements (UNGC, CDP, UN SDGs, etc.).

ENVIRONMENTAL POLICY:

- The presence and completeness of an organization's environmental management policies, what they contain, and how they are managed. Disclosures describe company policies related to environmental protection, responsible building development, carbon pricing, supply chain, resilience scenario planning, compliance with regulation, and management/approval from senior leadership, among others.

ENVIRONMENTAL MANAGEMENT SYSTEM:

- Details the systematic management of an organization's environmental programs, and whether or not an organization has a documented structure in place. Disclosures focus on policies and procedures in place to govern operations, tools and platforms to collect, monitor and manage environmental data, and processes to evaluate and mitigate negative impact. Emphasis is placed on target-setting and continuous monitoring.



AvalonBay Communities, View from North Station, Boston, MA

GREENHOUSE GAS EMISSIONS (GHG):

- Includes all greenhouse gas (GHG) emissions-related metrics and policies for a company across Scope 1 (direct, onsite), Scope 2 (purchased energy) and Scope 3 (extended indirect). Disclosures require verifiable information and standardized data for the emissions resulting from company operations and products, as well as descriptions of programs and policies seeking to reduce or otherwise mitigate negative emissions.

GOVERNANCE RISK ASSESSMENT:

- Describes company strategy and processes related to issues of security, data and financial risk, as well as overall company risk culture. Specific disclosure focuses on risk governance procedures and policies and how they are integrated into overall risk strategies.

GOVERNING POLICY:

- Includes disclosures related to the system of rules, practices, and processes that direct and control the organization. Disclosures cover risk management, corporate structure, management approach, data policies, and adherence to regulation, among others. Specific focus on describing the policies in place and the strong accountability and oversight behind each policy.

HEALTH AND SAFETY:

- Policies and practices related to occupational health of employees. Disclosures cover verifiable data and standardized metrics related to employee injuries, absentee rate, fatalities, lost-time injury frequency, and lost days, among others. Disclosures also explain specific policies related to employee health, nutrition, and overall access, as well as supplier/vendor/contractor health and wellbeing policies.

STAKEHOLDER ENGAGEMENT:

- Describes policies and practices related to outreach and communication efforts with a company's internal and external stakeholders. Engagement includes formal and informal communications, customer feedback, employee surveys, and community outreach, among others. Disclosure also focuses on stakeholder engagement related to ESG issues, such as sustainability reporting and disclosure, ESG controversy publications, and others.

SUPPLY CHAIN:

- Includes the management and performance of social aspects of a company's supply chain, including workforce and labor standards, codes of conduct, transparency, health and safety, and ESG integration. Disclosures cover whether or not organizations have screening policies and procedures in place to ensure their suppliers and vendors have strong social practices.

WORKFORCE DEVELOPMENT/ HUMAN CAPITAL:

- Disclosures focus on company's policies and practices related to employee workforce training, as well as talent attraction and retention. Specific metrics include the number of hours of training per employee, employee turnover rate, and percent of employees receiving regular performance reviews, among others. Disclosures also cover specific policies related to human rights and CSR trainings.



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