MEMO

SUBJECT:  Grounds for a Yes vote on AvalonBay Communities, Inc. shareholder resolution requesting a sustainability report

DATE:  April 11, 2012

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Dear AvalonBay Communities, Inc. Shareholder:

The Office of the Comptroller of the City of New York is the sponsor of Proposal No. 4 on the 2012 AvalonBay Communities, Inc. (AvalonBay) proxy ballot, a proposal that we encourage you to support, and which calls upon the Board of Directors to:

RESOLVED: Shareholders request that the Board of Directors of AvalonBay Communities “(Company)” prepare and make available to shareholders by September, 2012 sustainability report addressing greenhouse gas emissions, water conservation, waste minimization, energy efficiency, and other environmental and social impacts the Board deems relevant to the Company’s business. The report should address sustainability in operations and maintenance as well as design. It should include a review of the Company’s social and environmental policies, practices and goals, as well as multiple objective statistical indicators relating to each of the above environmental and social impacts.

This is the first year that shareholders have submitted a proposal requesting a sustainability report.

RATIONALE FOR A YES VOTE

1. AvalonBay’s sustainability-related disclosure falls short of what is commonly referred to as a sustainability report and does not adequately disclose sustainability-related risks, opportunities, policies and practices;

2. True sustainability reporting is an important element of business success;

3. AvalonBay lags behind some of its peers on sustainability reporting.

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1 The Office of the Comptroller of the City of New York, is custodian and trustee of the New York City Employees’ Retirement System, the New York City Teachers’ Retirement System, the New York City Fire Department Pension Fund and the New York City Police Pension Fund, and custodian of the New York City Board of Education Retirement System
1. AvalonBay’s sustainability-related disclosure falls short of what is commonly referred to as a sustainability report and does not adequately disclose the Company’s sustainability-related risks, opportunities, policies and practices.

AvalonBay’s primary sustainability disclosure is offered in a 13 page document (published in March of 2012) on the company website titled “Green Living: A Sustainable Commitment.” These pages focus on general green principles of the company, with highlights of specific environmental projects undertaken by AvalonBay. However, we do not believe that these pages constitute what is commonly referred to as a sustainability report for reasons described below.

The “Green Living” document states that “AvalonBay has undertaken an ongoing initiative to study and to implement practices that promote the efficient use of natural resources in the design, construction, and operation of its apartment communities and corporate offices. These practices strive to reduce AvalonBay’s impact on the environment, optimize net operating income, and create long-term value for the organization.”

However, AvalonBay’s disclosure of these efforts on its web site is incomplete and not easily comparable to other companies. For example, the web pages lack information on the entire category of social issues such as occupational health and safety, diversity, and community relations. There is a lack of specific data on water and energy use. Processes for stakeholder engagement are also not described.

In addition, we could not find any information on greenhouse gas (GHG) emissions, GHG reduction goals, or on risks and opportunities related to climate change, other than a statement in the Company’s most recent 10-K SEC filing which reads, “We believe that more government regulation of energy use, along with a greater focus on environmental protection may, over time, have a significant impact on urban growth patterns. If changes in zoning to encourage greater density and proximity to mass transit do occur, such changes could benefit multifamily housing and those companies with a competency in high-density development.” Since climate change is among the most significant sustainability issues of our time, with serious implications for property owners and developers, it should be addressed in the Company’s sustainability-related disclosure to shareholders.

The SEC issued interpretive guidance to corporations in February 2010 covering four types of climate risks and opportunities: impacts of domestic regulation, international accords, indirect consequences of regulation or business trends, and physical impacts. AvalonBay’s sustainability information does not include disclosure on any of these topics. And unlike its peers described below and over 3,000 companies worldwide, AvalonBay does not respond to the Carbon Disclosure Project (CDP) questionnaire. The CDP is backed by over 655 institutional investors with US $78 trillion in assets under management.

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2 http://avalonbay.com/avalon/site/pages/index.html;jsessionid=C22C2D647FB48C8F6612AD74C2559D32?code=r.sustain.home
4 https://www.cdproject.net/en-US/WhatWeDo/Pages/investors.aspx
While AvalonBay describes various efforts related to energy efficiency on the web site, few meaningful statistics on the environmental and financial impact of initiatives are given. Some useful detailed information is offered, especially on the payback time of the Company’s cogeneration pilot program, but actual results in terms of energy saved, emissions reduced, or return on investment are not provided for most of our company’s initiatives.

With regard to green standards, our company states that we are “implementing AvalonBay green standards (lighting, mechanical systems, product specifications) for all new developments.” Investors are left wondering about the results of what seems to be an important standard. How much energy, water and money are saved, collectively, through these efforts? How important is new construction relative to existing buildings with respect to sustainability? What are the company-wide goals for existing buildings? In addition, the individual case studies provided shed little meaningful light on how our company compares to its peers.

Clearly, our company can do much more to act on the stated commitment to green living. The principles laid out by AvalonBay indicate a willingness to dedicate time and resources to capturing the benefits of sustainable business practices. However, what is currently lacking is: 1) disclosure of specific risks, opportunities, goals and results; 2) disclosure of practices relating social issues; 3) data that facilitates comparison to peers; and 4) information on stakeholder engagement.

2. Sustainability reporting is an important element of business success.

A key purpose of publishing a true sustainability report is to inform investors, customers, employees and the public, in a comprehensive way, about significant environmental and social risks (and opportunities) faced by AvalonBay – and how the firm is managing these risks, including emerging risks that are not covered in the 10-K. Compared to the 10-K, a sustainability report typically goes into more detail about items such as goals companies set to reduce risks, plans to meet the goals, items that need improvement, and processes for stakeholder engagement.

Another important audience for sustainability reports is data aggregators -- of environmental, social, governance (ESG) and financial information -- such as Bloomberg, MSCI and providers of indexes such as the Dow Jones Sustainability Index. Without data that is easily comparable between companies – the kind of data provided by more than 3,000 companies world-wide who use the Global Reporting Initiative (GRI) metrics -- the ESG data aggregators may have difficulty populating their databases and sharing the information with AvalonBay investors and stakeholders.

Sustainability reporting is also important because the process of producing a good report helps companies to establish data gathering systems that help them control costs and reduce risk – in

5 http://avalonbay.com/sustainability/Avalon_GreenLiving_022412.pdf, p.4
6 http://www.facebook.com/pages/Global-Reporting-Initiative/134687209895491
the spirit of the old adage that what gets measured gets managed. This is of particular significance to real estate companies for at least four reasons: first, commercial buildings are major users of energy that produce greenhouse gases; second, energy costs are among the largest expenses associated with operating buildings; third, building conditions can have important impacts on worker productivity, morale, attendance and resident satisfaction; and fourth, real estate can be directly affected by the physical risks of climate change such as more severe storms and sea level rise. Manhattan (and especially its subway system), where AvalonBay has several projects, is particularly susceptible to the risks of sea level rise, storms and heavy rains according to a recent report by Climate Central.7

Note that sustainability issues also create significant financial opportunities for real estate owners, including the chance to achieve high returns on low risk investments in energy efficiency upgrades to building systems such as lighting, heating, cooling, windows and ventilation.

76 percent of executives polled by McKinsey & Company “say sustainability contributes positively to shareholder value in the long term, and 50 percent see short-term value creation.”8

A meta study by Mercer found that 10 out of 16 studies showed a positive impact on the financial performance of investments associated with “taking ESG issues into account.” Four of the 16 studies showed a neutral impact, and 2 showed a “neutral to negative” impact on performance.9 In its February 2011 report, "Climate Change Scenarios -- Implications for Strategic Asset Allocation," Mercer reported that climate change poses a 10 percent downside investment risk in investment portfolios.10

A Goldman Sachs study found that companies that are considered leaders in ESG policies outperform their peers in terms of their stock value by some 25 percent.11

According to a 2011 KPMG report on sustainability reporting, of the Global Fortune 250 companies, “fully 95% now report on CR [corporate responsibility] activities…. The number of companies now reporting on CR has continued to rise since KPMG’s last CR study in 2008. Indeed, where CR reporting was once merely considered an ‘optional but nice’ activity, it now seems to have become virtually mandatory for most multinational companies, almost regardless of where they operate around the world…. 80% of the Global Fortune 250 are now aligning to GRI reporting standards.”12

8 McKinsey Quarterly, March, 2010
  https://www.mckinseyquarterly.com/Energy_Resources_Materials/Strategy_Analysis/How_companies_manage_sustainability_
10 http://www.mercer.com/articles/1406410
  , p. 6, p.21
The Global Reporting Initiative’s (GRI) G3 Guidelines have become the gold standard for sustainability reporting, with more than 3,000 companies currently using the guidelines. Analysis of environmental, social and governance data is fast becoming a mainstream investment practice, as demonstrated by the rapid growth of investor groups such as the Principles for Responsible Investment (PRI, described below). In this context, common standards such as GRI are necessary for many of the same reasons that accounting standards are necessary. Imagine if all companies claimed that their financial reporting required opaque studies, heavy use of anecdotes, and could be reported sporadically throughout several documents. This system clearly would not serve the needs of investors or businesses, yet this is AvalonBay’s approach to sustainability reporting. And while GRI offers standard metrics that assist with comparisons across companies, it also offers a high level of flexibility in that companies can report on metrics that are most relevant to the firm. This flexibility should address management’s concern, expressed in the opposition statement, about wanting to focus on issues that are most relevant to the firm.

3. AvalonBay lags behind some of its peers on sustainability policies, practices and disclosure.

Many of AvalonBay’s peers in the real estate sector produce true sustainability reports based on GRI guidelines. Each of the companies listed below also participated in the Carbon Disclosure Project (CDP), and received high scores.

**Jones Lang Lasalle**

- Has a 2010 CSR report including GRI guidelines.  
- The CEO states in the CSR report: “We believe the best people want to work for socially responsible organizations they trust and respect. We believe that the best clients want to work with such companies, and we believe that, increasingly, investors want to hold the shares of such companies.”
- Awarded 2009 Leadership Award by the U.S. Green Building Council; rated by the Ethisphere Institute for three consecutive years as one of the World’s Most Ethical Companies; named us 2010 Energy Star® Partner of the Year by the EPA, among other honors.
- In 2008, Jones Lang LaSalle (JLL) was responsible for emitting 44,000 metric tons of CO2-e into the atmosphere, or 3.2 tons per full-time employee. During the same period, they helped clients reduce their carbon emissions by nearly ten times that amount—438,000 tons—and generated $95 million in energy savings for them.
- “JLL’s target is to reduce our clients’ carbon by an amount equal to or greater than ten times our carbon footprint for each year. Jones Lang LaSalle will achieve

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14 [http://www.joneslanglasalle.co.uk/csr/Pages/default.aspx](http://www.joneslanglasalle.co.uk/csr/Pages/default.aspx)
15 Jones Lang Lasalle 2010 CSR report, p.8
this both by reducing the value for its own carbon footprint as well as that of its clients.”

• Scored 80 out of 100 on the 2010 CDP.
• The results from the CoreNet Global and Jones Lang LaSalle 2009 survey showed that corporate real estate executives see sustainability as an emerging business priority. Some highlights:
  o “Sustainability is a critical business issue today for 70% of respondents and 89% consider sustainability criteria in their location decisions.
  o Green building certifications are always considered by 41% and energy labels by 46% in administering their portfolio.
  o 74% say they are willing to pay a premium to retrofit space that they own for sustainability criteria.
  o 21% would only pay more rent for sustainable space if offset by lower operating costs, while 8% expect to pay less and 34% the same.
  o 60% are adopting workplace strategies to meet sustainability goals while reducing overall occupancy costs.”

CBRE, Inc.

• Posts frequent online updates to environmental programs to supplement its Corporate Social Responsibility Report (CSR) Report.  
• The world’s largest real estate corporation, earned a Carbon Disclosure Project composite score ranking in the highest quartile.
• Received both national and international acclaim for green practices including a ranking of 45 among the top five hundred publicly traded companies in Newsweek’s “Green Rankings” in 2009 making them the highest ranked real estate company.
• Is a member of the United Nations Global Compact.
• Met commitment to achieve company-wide carbon neutrality in 2010.  
• In addition to their commitment to LEED certified buildings, CBRE is committed to achieving reduction of water consumption, energy use and use of other resources by implementing Environmental Management Systems in each global region, and by adopting procurement standards that ensure the best and most environmentally sound products such as paper and office furniture for their offices.  
• CBRE will also: “Identify and measure the carbon footprint of our operations and facilities and will set achievable targets to reduce it each year.”

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16 http://www.cbre.us/corporateresponsibility/Pages/Home.aspx/
17 http://www.cbre.us/AssetLibrary/CBRE-2010-CRReport.pdf, p. 2
18 http://www.cbre.com/EN/aboutus/corporateresponsibility/Pages/environment.aspx
19 http://www.cbre.com/EN/aboutus/corporateresponsibility/Pages/environment.aspx
• CBRE also engages their clients by providing advice and service so that clients may adopt or enhance “responsible environmental policies and practices with respect to real estate.”

Prologis
• Recently acquired AMB. Their 20010 CSR report is structured around GRI guidelines. “As an industry leader in environmental stewardship, we see it as our duty to address two major global challenges confronting humankind: climate change and overburdened ecosystems.”
• Prologis outlines specific achievements and goals including:
  o annually measuring and offsetting 100% of their US operational carbon footprint.
  o installed over 30 megawatts of solar energy capacity on company rooftops worldwide.
  o over 30 million square feet certified by green building rating systems such as LEED (Leadership in Energy and Environmental Design)
  o Diversion of 75% of construction debris from disposal in landfills and incinerators on all new projects.

KB Home
• KB Home has a 2010 GRI-based sustainability report (and has issued annual sustainability reports since 2007), and is a clear leader among home builders on energy efficiency and other sustainability issues. The report provides an update on the company's progress against its stated sustainability goals in 2010, including both accomplishments and challenges, in addition to outlining new goals for 2011 in the areas of: Consumer Awareness and Education; Water Efficiency and Conservation; Building Sciences Innovation; and Waste Reduction.
• “In addition to meeting strict ENERGY STAR® guidelines (90% of new homes delivered in 2010), all new KB homes are highly energy efficient to help lower monthly utility costs for homeowners, which the company demonstrates with its proprietary KB Home Energy Performance Guide® (EPG®), which estimates the annual operating costs of each new home.
• KB Home has built more than 60,000 new ENERGY STAR homes since 2000.
• KB Home was honored by the U.S. Environmental Protection Agency as a 2011 ENERGY STAR Sustained Excellence Award winner, based on many years of successful collaboration.
• KB is the first builder in the country to construct new homes to the EPA’s new WaterSense® specification.
• A leader in utilizing state-of-the-art sustainable building practices, KB Home was named the #1 Green Homebuilder in a 2010 study by Calvert Investments and the #1 Homebuilder on FORTUNE magazine's 2011 World's Most Admired Companies list.²⁵

**CONCLUSION**

We have argued that AvalonBay’s sustainability web pages fall well short of what is commonly understood to be a sustainability report. We realize the business community is in a transition period where sustainability reporting is fast becoming mainstream, and we feel that AvalonBay has fallen far behind several of its peers on disclosure even though AvalonBay is likely to have a strong story to tell about aspects of its sustainability efforts.

Our request of AvalonBay to issue a true sustainability report echoes the appeal of a global body of more than 800 institutional investors who embrace the Principles of Responsible Investing (PRI) and represent more than $30 trillion in assets under management (PRI estimates this to be about 20% of the world’s capital)²⁶. Signatories to the PRI actively integrate environmental, social, and governance due diligence into investment decision-making because they believe these issues affect long-term shareholder value. PRI Principle number three states, in part, that PRI members will: “Ask [companies] for standardized reporting on ESG issues (using tools such as the Global Reporting Initiative).” AvalonBay’s current ESG disclosure does not satisfy this request by investors for all the reasons listed above. We encourage you to vote in support of Proposal No. 4 on the proxy requesting a sustainability report.

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