

## MEMO

SUBJECT: Grounds for a Yes vote on Boston Properties shareholder resolution requesting a sustainability report

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Dear Boston Properties Shareholder:

The Office of the Comptroller of the City of New York is the sponsor<sup>1</sup> of Item No. 5 on the 2011 Boston Properties proxy ballot, a proposal that we encourage you to support, and which calls upon the Board of Directors to:

Issue a report to shareholders, by June 30, 2012, at reasonable cost and omitting proprietary information, on the Company's sustainability policies and performance, including multiple, objective statistical indicators. The report should include the Company's definition of sustainability, as well as a company-wide review of company policies, practices, and indicators related to measuring long-term social and environmental sustainability.

*Supporting Statement:* We recommend that the Company use the Global Reporting Initiative's Sustainability Reporting Guidelines ("The Guidelines") to prepare the report. The Global Reporting Initiative ([www.globalreporting.org](http://www.globalreporting.org)) is an international organization with representatives from the business, environmental, human rights, and labor communities. The Guidelines provide guidance on report content, including performance in six categories (direct economic impacts, environmental, labor practices and decent work conditions, human rights, society, and product responsibility). The Guidelines provide a flexible reporting system that permits the omission of content that is not relevant to company operations. Over 900 companies use or consult the Guidelines for sustainability reporting.

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

### **RATIONALE FOR A YES VOTE**

1. Boston Properties web pages fall short of what is commonly referred to as a sustainability report, and do not adequately disclose the Company's sustainability-related risks, opportunities, policies and practices;
2. True sustainability reporting is an important element of business success;

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<sup>1</sup> The Office of the Comptroller of the City of New York, as 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 as custodian of the New York City Board of Education Retirement System (collectively, the "Funds") are beneficial holder of an aggregate of 1,427,461 shares of common stock of Boston Properties.

### 3. Boston Properties lags behind its peers on sustainability reporting.

#### **1. Boston Properties web pages fall short of what is commonly referred to as a sustainability report, and do not adequately disclose the Company's sustainability-related risks, opportunities, policies and practices.**

Boston Properties primary sustainability disclosure is offered in six pages listed under the heading "Sustainability" on the company web site as well as four case studies describing various environmental projects.<sup>2</sup> The web pages focus on: energy efficiency, green building, recycling / solid waste management, water conservation, and green cleaning. Management refers to the pages as the company's "sustainability report" in the opposition statement to the resolution. However, we do not believe that the pages constitute what is commonly referred to as a sustainability report for reasons described below.

Boston Properties 2010 10-K states: "As one of the largest owners and developers of office properties in the United States, we actively work to promote our growth and operations in a sustainable and responsible manner across our five regions."<sup>3</sup>

However, Boston Properties 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. Processes for stakeholder engagement are also not described.

In addition, we could not find any information on greenhouse gas emissions, greenhouse gas reduction goals, or on risks and opportunities related to climate change. Since climate change is among the most significant sustainability issues of our time,<sup>4</sup> dubbed the "greatest and widest-ranging market failure ever seen,"<sup>5</sup> it seems a serious oversight to ignore it in the "sustainability report."

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. Boston Properties sustainability web pages do not include disclosure on any of these topics. (The 2010 10-K does include a list of possible physical risks from climate change as well some language about the uncertainties of climate science.) And unlike its peers described below and over 3,000 companies worldwide, Boston Properties provided no response to the 2010 Carbon Disclosure

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<sup>2</sup> [http://ir.bostonproperties.com/phoenix.zhtml?c=120176&p=irol-sustainability\\_home](http://ir.bostonproperties.com/phoenix.zhtml?c=120176&p=irol-sustainability_home)

<sup>3</sup> From Boston Properties 2010 10-K, p. 14. <http://services.corporate-ir.net/SEC/Document.Service?id=P3VybD1odHRwOi8vaXIuaW50Lndlc3RsYXdidXNpbmVzcy5jb20vZG9jdW11bnQvdjEvOTk5OTk5OTk5Ny0xMS0wMDczMzlvZG9jL0Jvc3RvblByb3BlcnRpZXNJbmcucnRmJnR5cGU9MyZmbj1Cb3N0b25Qcm9wZXJ0aWVzSW5jLnJ0Zg==>

<sup>4</sup> As signaled by the US SEC, hundreds of governments signing international treaties, and institutional investors around the world via the CDP.

<sup>5</sup> 2006 Stern Review

Project (CDP) questionnaire.<sup>6</sup> The CDP is backed by over 500 institutional investors with US \$71 trillion in assets under management.<sup>7</sup>

While our company describes various efforts related to energy efficiency on the web site, it summarizes results with vague language such as: “We believe our efforts described below have led to a meaningful reduction in the number of kilowatt-hours (kWh) used in the operation of our properties and a reduction in our operating expenses.”<sup>8</sup> But the actual results in terms of energy saved, emissions reduced, or return on investment are not provided. In fact, we had trouble finding concrete or quantitative goals of any sort on the sustainability web pages.

Boston Properties does disclose details on the growing percentage of eligible buildings meeting Energy Star standards, which is helpful, but this data also lacks information on outcomes such as savings of energy, emissions and operating costs.

With regard to green building, the web page states: “Barring unusual use, site or design constraints, we target LEED-Silver or better on all developments.”<sup>9</sup> Again, investors are left wondering about the results of what seems to be a very important strategy. How much energy, water and money are saved, collectively, through these efforts? How important are new projects relative to existing buildings with respect to sustainability? What are the company-wide goals for existing buildings? In addition, the individual case studies provided don’t shed any meaningful light on how our company compares to its competitors.

Clearly, Boston Properties can do much more to act on their stated “commitment to increasing the transparency of our sustainability program,”<sup>10</sup> and to meet the additional objectives of the company’s Sustainability Committee to:

- 1. identify and execute new strategies for promoting sustainability in new construction, existing buildings and corporate operations,*
- 2. promote communication across the Company and share “best practices,” and*
- 3. assess the cost effectiveness of small and large scale projects and programs.<sup>11</sup>*

These broad objectives indicate a willingness to dedicate time and resources to sustainable business practices. What is 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,

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<sup>6</sup> Boston Properties also failed to respond during the three previous years. <https://www.cdproject.net/en-US/WhatWeDo/Pages/overview.aspx>

<sup>7</sup> <https://www.cdproject.net/en-US/WhatWeDo/Pages/overview.aspx>

<sup>8</sup> [http://ir.bostonproperties.com/phoenix.zhtml?c=120176&p=irol-sustainability\\_energy](http://ir.bostonproperties.com/phoenix.zhtml?c=120176&p=irol-sustainability_energy), energy efficiency projects section.

<sup>9</sup> [http://ir.bostonproperties.com/phoenix.zhtml?c=120176&p=irol-sustainability\\_lead](http://ir.bostonproperties.com/phoenix.zhtml?c=120176&p=irol-sustainability_lead)

<sup>10</sup> [http://ir.bostonproperties.com/phoenix.zhtml?c=120176&p=irol-sustainability\\_home](http://ir.bostonproperties.com/phoenix.zhtml?c=120176&p=irol-sustainability_home)

<sup>11</sup> Id Supra.

employees and the public, in a comprehensive way, about significant environmental and social risks (and opportunities) faced by Boston Properties – 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 2,000 companies world-wide who use the Global Reporting Initiative (GRI) metrics<sup>12</sup> – the ESG data aggregators may have difficulty populating their databases and sharing the information with Boston Properties’ 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 the spirit of the old adage that what gets measured gets managed. This is of particular significance to the real estate companies for at least four reasons: first, commercial buildings are major users of energy that produce greenhouse gases;<sup>13</sup> second, energy costs are among the largest expenses associated with operating buildings, third, building conditions can have important impacts on worker productivity, morale and attendance; and fourth, real estate can be directly affected by the physical risks of climate change such as more severe storms and sea level rise.

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, 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.”<sup>14</sup>

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.<sup>15</sup> 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.<sup>16</sup>

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<sup>12</sup> <http://www.esglobal.com/our-services/global-reporting-initiative-gri-and-sustainability-reporting-training/>

<sup>13</sup> Real estate generates 40 percent or more of greenhouse gas emissions in developed countries according to the 2010 Jones Lang Lasalle Corporate Social Responsibility Report, p. 3.

<sup>14</sup> McKinsey Quarterly, March, 2010

[https://www.mckinseyquarterly.com/Energy\\_Resources\\_Materials/Strategy\\_Analysis/How\\_companies\\_manage\\_sustainability\\_McKinsey\\_Global\\_Survey\\_results\\_\\_2558](https://www.mckinseyquarterly.com/Energy_Resources_Materials/Strategy_Analysis/How_companies_manage_sustainability_McKinsey_Global_Survey_results__2558)

<sup>15</sup> Environmental Finance, “ESG Can Boost Financial Performance – Mercer,” Dec- Jan 2010.

<sup>16</sup> <http://www.mercer.com/articles/1406410>

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.<sup>17</sup>

According to a 2008 KPMG report on sustainability reporting, of the Global Fortune 250 companies, 79% produce reports compared to 52% in 2005. Of the 100 top U.S. companies by revenue, 73% produce reports compared to 32% in 2005.

The Global Reporting Initiative's (GRI) G3 Guidelines have become the gold standard for sustainability reporting, with more than 2000 companies currently using the guidelines.<sup>18</sup> Analysis of environmental, social and governance data is fast becoming a mainstream investment practice, as demonstrated by the rapid growth of investor groups such and the Principles for Responsible Investment (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 custom metrics, heavy use of anecdotes, and could be reported on a half-dozen web pages. This system clearly would not serve the needs of investors or businesses. Yet, it is the approach that Boston Properties currently takes to sustainability reporting. And while GRI offers standard metrics that are comparable 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. Boston Properties lags behind its peers on sustainability policies, practices and disclosure.**

Many of Boston Properties' competitors or peers 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.<sup>19</sup>
- 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."<sup>20</sup>
- 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 CO<sub>2</sub>-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

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<sup>17</sup> Goldman Sachs, "GS SUSTAIN Focus List," 2007  
([http://www.unglobalcompact.org/docs/summit2007/g\\_s\\_esg\\_embargoed\\_until030707pdf.pdf](http://www.unglobalcompact.org/docs/summit2007/g_s_esg_embargoed_until030707pdf.pdf)).

<sup>18</sup> <http://www.esglobal.com/our-services/global-reporting-initiative-gri-and-sustainability-reporting-training/>

<sup>19</sup> <http://www.joneslanglasalle.com/csr/Pages/default.aspx>

<sup>20</sup> Jones Lang Lasalle 2010 CSR report, p.3

times that amount—438,000 tons—and generated \$95 million in energy savings for them.<sup>21</sup>

- “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 this both by reducing the value for its own carbon footprint as well as that of its clients.”<sup>22</sup>
- Scored 80 out of 100 on the 2010 CDP.<sup>23</sup>
- 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:<sup>24</sup>
  - “Sustainability is a critical business issue today for 70% of respondents and 89% consider sustainability criteria in their location decisions.
  - Green building certifications are always considered by 41% and energy labels by 46% in administering their portfolio.
  - 74% say they are willing to pay a premium to retrofit space that they own for sustainability criteria.
  - 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.
  - 60% are adopting workplace strategies to meet sustainability goals while reducing overall occupancy costs.”

#### **AMB Property Corp (merging with Prologis, listed below)**

- Created a 2009 GRI-based report. AMB plans to report annually, although there is no report yet for 2010.
- The CEO recognizes sustainability as a long-term strategy of investing. “Our infill portfolio of distribution properties brings our customers closer to their customers, helping to reduce truck traffic, emissions and transportation costs. These reductions provide competitive advantage and cost savings for customers as well as environmental benefits for local community.”<sup>25</sup>
- AMB pays attention to precautionary approach related to negative effects of climate change and notes that it is of particular significance to property owners—“AMB works to proactively address concerns that may impact business operations. We have developed disaster recovery plans in at-risk markets to reduce the likelihood and severity of problems during natural disasters.”<sup>26</sup>
- AMB recognizes the unique relationship between a real estate company and its stakeholders, “AMB's stakeholders include customers, shareholders, partners, debtholders, employees and the communities where we operate. Our facilities

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<sup>21</sup> Jones Lang Lasalle 2010 CSR report, p.8

<sup>22</sup> Jones Lang Lasalle 2010 CSR report, p.29

<sup>23</sup> <http://www.joneslanglasalle.com/csr/Pages/default.aspx>

<sup>24</sup> Jones Lang Lasalle 2010 CSR report, p.13

<sup>25</sup> <http://www.amb.com/sustainability/griIndex/strategyAndAnalysis.php?tab=1.1>

<sup>26</sup> <http://www.amb.com/sustainability/ceoLetter/index.php>

change the landscape, and the design of our buildings has an impact on energy and resource consumption for the life of the facility.”<sup>27</sup>

- “We recognize a long-term trend toward a resource-constrained future that requires more focused attention on sustainability, conservation and efficiency, which presents an opportunity for us to increase value to stakeholders.”<sup>28</sup>

### **CB Richard Ellis**

- Has a 2009 Corporate Social Responsibility Report (CSR) structured around GRI guidelines.
- The world’s largest real estate corporation, earned a Carbon Disclosure Project composite score ranking in the highest quartile.<sup>29</sup>
- 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.<sup>30</sup>
- Is a member of the United Nations Global Compact.
- Reported to be on the path to their goal of carbon neutrality by 2010 set out in the 2009 report.
- 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 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.”<sup>31</sup>

### **Prologis**

- CSR report structured around GRI guidelines. “Four years ago, we published our first Sustainability Report, solidifying our commitment to what we believe is the right thing to do—minimizing our environmental impact and supporting local communities, all while being a good steward of capital.”<sup>32</sup>
- Prologis outlines specific goals for 2010 including:
  - Installation of renewable energy sources that have a combined generation capacity of over 25 million kilowatt hours per year across the company’s global property portfolio.”
  - Utilization of 20% recycled content, based on cost, in all new warehouse developments.

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<sup>27</sup> From AMB Sustainability report p. 9: [http://www.amb.com/sustainability/docs/AMB\\_Sustainability\\_Report.pdf](http://www.amb.com/sustainability/docs/AMB_Sustainability_Report.pdf).

<sup>28</sup> From AMB Sustainability report p. 9: [http://www.amb.com/sustainability/docs/AMB\\_Sustainability\\_Report.pdf](http://www.amb.com/sustainability/docs/AMB_Sustainability_Report.pdf)

<sup>29</sup> From CB Richard Ellis CSR report, p. 10.

<http://www.cbre.com/EN/AboutUs/CorporateResponsibility/Documents/CBRE-2009-CR.pdf>

<sup>30</sup> From CBRE 2009 CSR report p 10.

<sup>31</sup> <http://www.cbre.com/EN/AboutUs/CorporateResponsibility/Pages/Environment.aspx>

<sup>32</sup> From Prologis CSR report, p. 2. [http://ir.prologis.com/reports/2009CRRReport/ci\\_report.html](http://ir.prologis.com/reports/2009CRRReport/ci_report.html)

- Reduction of potable water usage for landscape irrigation in all new warehouse developments by 50 percent.
- Diversion of 75% of construction debris from disposal in landfills and incinerators on all new projects.<sup>33</sup>

## CONCLUSION

We have argued that Boston Properties sustainability web pages fall well short of what is commonly understood to be a sustainability report. Readers may wish to review Jones Lang Lasalle's 2010 corporate social responsibility report and compare it to Boston Properties effort to see more about what we mean. The differences in breadth and depth are profound, and the importance that JLL places on sustainability and disclosure as a core part of business strategy for the commercial real estate industry is edifying. We realize the business community is in a transition period where sustainability reporting is fast becoming mainstream, and we feel that Boston Properties has fallen far behind many of its peers on disclosure even though Boston Properties is likely to have a strong story to tell about aspects of its sustainability efforts.

Our request of Boston Properties 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 \$25 trillion in assets under management. 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)."<sup>34</sup> Boston Properties current ESG disclosure does not satisfy this request by investors for all the reasons listed above. We encourage you to vote in support of Item No. 5 on the proxy requesting a sustainability report.

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<sup>33</sup> From Prologis CSR Report, p.33. [http://ir.prologis.com/reports/2009CRReport/ci\\_report.html](http://ir.prologis.com/reports/2009CRReport/ci_report.html)

<sup>34</sup> <http://www.unpri.org/principles/>