MEMO

SUBJECT: Grounds for a Yes vote on Equity Residential shareholder resolution requesting a sustainability report

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Dear Equity Residential Shareholder:

Ceres encourages you to support Proposal No. 4 on the 2013 Equity Residential proxy ballot, which calls upon the Board of Directors to:

RESOLVED: Shareholders request that the Board of Directors of Equity Residential ("Company") prepare and make available to shareholders by September, 2013 a sustainability report addressing greenhouse gas emissions, water conservation, waste minimization, energy efficiency, and other environmental and social impacts the Board deems relevant to 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 second year that the proponent, the New York City Pension Funds, has submitted a proposal requesting a sustainability report; in 2012, the proposal received a 45.1% vote.

RATIONALE FOR A YES VOTE

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

2. Sustainability reporting is an important element of business success and is necessary to enable investors to fully assess risks.
   a. Reporting helps to protect and enhance shareholder value.
   b. The real estate industry is distinctly vulnerable to risks posed by climate change.

3. Equity Residential lags behind its peers on sustainability reporting.
1. Equity Residential’s sustainability-related disclosure falls far 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.

Equity Residential’s sustainability disclosure is offered primarily in three places: the company’s “GreenWorks” page, the “Going Green” page, and a three-page sustainability brochure. The quality and quantity of the information offered by these sources is inadequate.

The company’s “GreenWorks” page states:
“from raising awareness of everyday things we can all be doing, to utilizing new technologies, we are committed to improving the environment. We are proud of ways our residents and employees have made an impact at our communities, and we are working, every day, to improve the ways we all can live and work greener. We promise to keep you informed of our progress.”

Despite this promise, the disclosure provided is ambiguous, incomplete and not easily comparable to other companies.

For example, the “GreenWorks” page explains that Equity Residential has reduced “consumption of natural resources through hundreds of energy efficiency projects” and that the company is “exploring renewable energy technologies such as solar, wind, and geothermal,” yet no further substantive information is provided. This hinders investors’ ability to compare Equity Residential’s environmental measures to its peers.

The company also provides inadequate information on social issues such as occupational health and safety, diversity, and community relations, and fails to describe processes for stakeholder engagement.

Overall, the materials provided on sustainability contains no quantitative data, goals, or risk mitigation strategies, and are effectively useless for investors seeking to evaluate the company’s progress.

Equity Residential recognizes the serious risks posed to shareholder value by climate change, yet no strategies for mitigating these risks are offered. A statement in the Company’s most recent 10-K SEC filing reads,
“To the extent that climate change does occur, we may experience extreme weather and changes in precipitation and temperature, all of which may result in physical damage or a decrease in demand for properties located in these areas or affected by these conditions. Should the impact of climate change be material in nature, including destruction of our

1 http://www.equityapartments.com/corporate/green.html
2 http://www.equityapartments.com/content/GreenWorks.aspx
4 http://www.equityapartments.com/corporate/corporatesocialresponsibility.html
properties, or occur for lengthy periods of time, our financial condition or results of operations may be adversely affected.”

Since climate change has serious implications for property owners and developers, it should be thoroughly addressed in the Company’s sustainability-related disclosure to shareholders. Equity Residential shareholders should be informed of these risks, as the company “has become more susceptible to large losses as it has transformed its portfolio, becoming more concentrated in fewer, more valuable assets over a smaller geographical footprint,” according to the company’s 10-K filing for the fiscal year ended December 31, 2012. In 2010, the SEC issued interpretive guidance to corporations covering four types of climate risks and opportunities: impacts of domestic regulation, international accords, indirect consequences of regulation or business trends, and physical impacts. Equity Residential’s sustainability disclosure offers almost no information on any of these topics. And unlike over 5,000 companies worldwide, Equity Residential does not participate in the Carbon Disclosure Project (CDP), which is backed by over 722 institutional investors with US $87 trillion in assets under management. Clearly, the company can do much more to act on its commitment to “green thinking.” The GreenWorks principles laid out by Equity Residential indicate a willingness to dedicate time and resources to capturing the benefits of sustainable business practices. However, the company still lacks: 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 and is necessary to enable investors to fully assess risks.

A) Reporting helps to protect and enhance shareholder value.

Publishing a true sustainability report would inform investors, customers, employees and the public of significant environmental and social risks (and opportunities) faced by Equity Residential, and how the firm is managing these risks to protect shareholder value.

Investors benefit from full disclosure of all important risks to the company, including emerging risks that are not covered in the 10-K. Unlike the 10-K, a sustainability report typically addresses goals to reduce sustainability-related risks, time-bound plans to reach these goals, and processes for stakeholder engagement.

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5 http://www.sec.gov/Archives/edgar/data/906107/000090610713000005/eqr-20121231x10k.htm
6 http://www.sec.gov/Archives/edgar/data/906107/000090610713000005/eqr-20121231x10k.htm
7 https://www.cdproject.net/en-US/Results/Pages/Responses.aspx?Search=True&Keyword=Equity+Residential
Another important audience for sustainability reports is data aggregators -- of environmental, social, governance (ESG) and financial information -- such as Bloomberg, Thomson Reuters, 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 4,000 companies world-wide who use the Global Reporting Initiative (GRI) metrics\(^9\) -- the ESG data aggregators have difficulty populating their databases and sharing the information with investors.

Additionally, the process of producing a comprehensive report helps companies to establish data gathering systems that aids them in controlling costs and reducing risks, in the spirit of the old adage, what gets measured gets managed.

A growing body of research demonstrates that making a commitment to and measuring sustainability improves shareholder value and business performance:

- A meta study conducted by Deutsch Bank found that companies with high ratings for environmental, social and governance factors have a lower cost of capital and are a lower risk to investors. Based on this study, Deutsche Bank concludes, “**ESG analysis should be incorporated into the investment process of every serious investor, and into the corporate strategy of every company that cares about shareholder value**”\(^{10}\).

- A meta study by Mercer in 2010 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\(^{21}\). 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\(^{12}\).

- 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\(^{13}\).

- According to a 2011 KPMG report on sustainability reporting, of the Global Fortune 250 companies, “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”\(^{14}\).

**B) The real estate sector is uniquely vulnerable to sustainability issues such as physical risks from climate change.**

Sustainability reporting is of particular significance to real estate companies for four main reasons: first, commercial buildings are major users of energy that produces greenhouse gases;

\(^{9}\) http://database.globalreporting.org/

\(^{10}\) http://www.dbcca.com/dbcca/EN/ media/Sustainable_Investing_2012-Exec_Summ.pdf


\(^{12}\) http://www.mercury.com/articles/1406410


second, energy costs are among the largest expenses associated with operating buildings and often impact building resale valuations; third, building conditions can have important impacts on worker productivity, safety, morale, and attendance as well as resident health and 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 Equity Residential 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.15

Superstorm Sandy demonstrated these risks by devastating New York City and flooding a portion of the US’s largest rapid-transit system; preliminary U.S. damage estimates are near $50 billion, making Sandy the second-costliest hurricane to hit the United States since 1900.16

A sustainability report should sufficiently address these climate-related risks, and also explain opportunities that are unique to the real estate sector in terms of energy efficiency. For example, Equity Residential has the opportunity for low risk investments in energy efficiency upgrades to building systems such as lighting, heating, cooling, ventilation -- projects which often generate a high return on investment. And investments in renewable energy generation can reduce the volatility of energy costs and provide marketing benefits.

3. Equity Residential lags behind its peers in the real estate business on sustainability policies, practices and disclosure.

Many of Equity Residential’s peers in the real estate sector produce detailed sustainability reports based on GRI guidelines. Each of the companies listed below also participates in the Carbon Disclosure Project (CDP), and receives high scores. Their achievements in sustainability are easily identified due to their clear and comprehensive reports.

Jones Lang Lasalle17

- Issues CSR report based on GRI Guidelines
- Recognition:
  - Received the Energy Star Sustained Excellence Award 2 years in a row (‘12, ‘13); Ethics Inside Certification; FORTUNE World’s Most Admired Companies; Ethisphere’s World’s Most Ethical Companies
- Stated sustainability policy:
  - “Lead the transformation of the property industry by reducing the environmental impact of commercial real estate;
  - Increase our investment in energy and sustainability expertise;
  - Reduce our carbon footprint through our ACT: ‘A Cleaner Tomorrow’ initiative, which focuses on energy conservation, water conservation, emissions reduction, solid waste reduction, recycling and recycled material use”
- In 2010, JLL issued initial CSR targets they hope to accomplish moving forward. These are specific quantitative and qualitative goals that correspond to their sustainability policy. In their

16 http://www.nhc.noaa.gov/data/cr/AL182012_Sandy.pdf
2011 CSR report, they update each target with relevant progress, or identify where there is room for improvement.

- **2011 accomplishments**
  - Met 2010 goal to deliver carbon savings for clients that exceed 10 times their own global footprint
  - Documented $105 million in energy savings and reduced 587,000 metric tons of CO2 equivalent in their U.S. managed portfolio
  - Since 2007, have helped clients avert an estimated 1.22 million metric tons of CO2e per year
  - Reduced absolute building-related emissions by 8% from 2010 to 2011 (in corporate offices)
  - Surpassed 2010 goal of employing 1,000 energy and sustainability professionals (employ 1,075)
  - Achieved the world's highest LEED® Platinum score for a Commercial Interiors project in their Hong Kong corporate office

- **Future goals**
  - Further implement energy efficiency initiatives in corporate offices
  - Assess new corporate office accommodation using local green building standards and incorporate green fit-out standards into all new offices
  - Expand ACT: ‘A Cleaner Tomorrow’ with annual written plans of key goals and activities for each country where possible

**Prologis**

- **Issues CSR report based on GRI Guidelines**
- **Recognition**
  - Named to the CDP S&P 500 Carbon Disclosure Leadership Index; Global 100 Most Sustainable Corporations in the World; NAREIT Large Cap – Bronze Leader in the Light Award (US); Kanagawa Global Warming Countermeasure Award (Japan); National Awards Program for Energy Savings, 2nd Place, Commission Federal de Electricidad (Mexico); LABC Building Excellence Award – Best Sustainable Project (UK); Cemefi Corporate Social Responsibility Seal (Mexico)
- **Formal sustainability policy:**
  - “Minimize energy use and carbon emissions by our customers by providing energy-efficient buildings and a geographically diverse platform that allows our customers to be closer to their customers, and optimize energy consumption
  - Minimize the ecological impact of our developments by meeting or exceeding recognized sustainable development standards worldwide
  - Minimize the impact of our own business activities by encouraging colleagues in our offices to reduce our environmental footprint in areas such as energy, waste, procurement and water”
- **Prologis has qualitative and quantitative goals corresponding to their sustainability policy, including:**
  - Utilize at least 20 percent recycled content, based on cost, in new developments
  - Divert 75 percent of construction debris from landfills and incinerators on new projects
  - Reduce potable water usage by 50 percent in all new warehouse developments

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- Reduce energy consumption in the portfolio 20 percent by 2020 on a global basis
- Utilize rooftop real estate to generate incremental income
  * See their CR Report for full list

- 2011 accomplishments
  - Offset 110 percent of the carbon footprint of our U.K.-based developments through Planet Positive certification
  - Global portfolio received approximately $23 million in lighting efficiency investments
  - To date, has installed energy-efficient lighting systems at approximately 41 percent of the properties in its global operating portfolio
  - Grew its installed solar portfolio fivefold, ending the year with more than 78 megawatts installed on rooftops
    - Currently has solar projects installed or under construction on more than 50 buildings throughout the world

- Future goals
  - Initiated a $2.6 billion rooftop solar funding program in the United States which will support the build-out of more than 700 megawatts of solar projects on Prologis rooftops over the next four years
  - Continue to work towards previously set goals

**Brookfield Office Properties**

- Brookfield does not report based on the GRI framework, though they are still a leader in sustainable practices and sustainability reporting.
  - In Equity Residential’s opposition to an identical resolution filed last year, the company argued that the resolution imposes the GRI framework. Though GRI is widely acknowledged as the gold standard for sustainability reporting, it is not the only path companies can take to fulfill the request of the resolution. Brookfield exemplifies how a company can provide transparency without using the GRI framework.

- Recognition
  - Named to the list of "Top 50 Most Socially Responsible Corporations in Canada" by Jantzi-Maclean's; included in the FTSE4Good Index.

- Sustainability policy:
  - To operate, develop, retrofit, redesign and renovate properties to achieve optimum energy efficiency, occupant satisfaction and reduced carbon emissions.
  - To incorporate innovative environmental strategies in order to achieve best-in-industry environmental performance in all new office developments.
  - To seek best-in-class environmental certifications, actively participate in green industry organizations, and support new initiatives that foster the energy and resource-efficient operation of office buildings and environmentally sustainable communities and practices.

- 2011 accomplishments:
  - Secured 10 new LEED certifications at North American properties

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- World Financial Center complex in Lower Manhattan - became the largest office building in New York to receive a LEED EB:OM Gold designation
  - Began a program to purchase renewable energy credits at select properties in their portfolio; there are currently three properties in this program
  - From 2008 to 2010, has achieved an 8% reduction in greenhouse gas emissions in its entire portfolio
  - By the end of the year, 48 properties were registered in the Energy Star program (up from 5 properties in 2007)
- Future goals:
  - Secure 12 new LEED certifications for North American properties in 2012, bringing current and target LEED-certified buildings to 54% of North American portfolio
  - Pledge to build all future developments to a minimum standard of LEED Gold or its local equivalent
  - Have at least one charging station for electric vehicles in each of their North American operating markets by the end of 2012

Why Use the Global Reporting Initiative Guidelines?

The Global Reporting Initiative’s (GRI) G3 Guidelines have become the gold standard for sustainability reporting, with more than 4,000 companies 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 heavy use of anecdotes, vague assertions, and scattered information that could be reported sporadically throughout several documents. This system clearly would not serve the needs of investors or businesses, yet this is Equity Residential’s approach to sustainability-related disclosure. And while GRI offers standard metrics that assist with comparisons across companies, it also offers a high level of flexibility in that companies can choose to report only on metrics that are most relevant to the firm. This flexibility helps to ensure that time and money are not wasted in preparing the report.

In addition, the GRI has a Construction and Real Estate Sector Supplement, which covers key sector-specific issues, any of which companies can choose to report on, which include the following:
- Product and service labeling, including building and materials certification
- Building energy intensity
- Water intensity
- GHG emissions relating to buildings in use
- Management and remediation of contaminated land

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21 http://database.globalreporting.org/
22 http://www.unpri.org/signatories/
CONCLUSION

We have argued that Equity Residential’s sustainability disclosure is inadequate; their two environmental web pages and brochure fall short of what is commonly accepted as a sustainability report. We realize the business community is in a transition period where sustainability reporting is becoming mainstream, and we feel that Equity Residential has fallen far behind several of its peers on disclosure even though Equity Residential may have a strong story to tell about aspects of its sustainability efforts.

The New York City Office of the Comptroller’s request of Equity Residential to issue a sustainability report echoes the appeal of a global body of more than 1000 institutional investors who are signatories of the Principles of Responsible Investing (PRI), representing more than $30 trillion in assets under management.24 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).”25 Equity Residential’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.

25 http://www.unpri.org/about-pri/the-six-principles/