

TCFD INDEX



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Climate Change

We identify climate change as a risk to our business and an opportunity for long-term value creation and a key driver in long-term strategic business decisions. These risks may span transitional and physical risks, as detailed below. We became a supporter of the Task Force for Climate Related Financial Disclosures (TCFD) in 2018, and our discussion of our climate change risks and opportunities follows that framework. We have chosen the TCFD framework because we believe it is the most robust climate change disclosure framework available and will help us define the climate change impacts that will be material to our business. We are proud that our resilience programs ranked us first in North American Office in 2019, which indicates that we have a strong foundation to further grow our climate change resilience programs. Our TCFD index can be found on page 24.

GOVERNANCE

Climate-related risks and opportunities are governed by the Board through its Corporate Social Responsibility and Sustainability Committee. More information can be found on page 114. In 2018, the Committee endorsed the TCFD recommendations and tasked management with assessing and reporting against climate related risk. The management team that will be executing those tasks includes representatives from sustainability, Risk Management, Security, Asset Management and Engineering.



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RISKS AND OPPORTUNITIES

TRANSITIONAL RISKS

Policy and Legal Risks

- More cities and states in which we operate have implemented or are considering implementation of legislation to severely limit the built environment's carbon emissions. Complying with many of these policies could be expensive or could require us to redesign projects in development. We believe we are ahead of our peers in anticipating new energy regulations. For example, because we were prepared, complying with the Los Angeles benchmarking ordinance was less burdensome for us than certain competitors because we had already ensured access to all of our building data. We have successfully and proactively influenced new environmental regulation such as electric vehicle legislation in San Francisco and benchmarking legislation in Santa Monica.
- Anticipated rising costs for energy and water may result in increased operating costs at our properties. In particular, California has recently experienced extreme wildfires, and we expect increases in energy costs as California utilities work to make their infrastructure safer. We manage these increases through our efficiency programs to protect our tenants, but these costs could increase faster than we can reduce our energy and water use. In addition, climate change may cause changes in building energy consumption patterns leading to increased peak demand costs. While we have battery storage and demand response programs to mitigate this risk, they may not be sufficient. Our solar installations will also help reduce some peak demand charges during morning start-ups.
- We do not currently anticipate that the real estate industry will be regulated by carbon legislation in the short term, though the effects of this legislation on other industries may indirectly affect us through higher energy costs, higher raw materials costs, and increased tenant demand for sustainable properties. Enhanced emissions-reporting obligations could also increase operating expenses.
- We do not believe we are exposed to litigation risk as a result of climate change.

Technology Risk

- We anticipate technology risk around climate change primarily creating increased capital costs around investing in new technologies to reduce the carbon footprint of our buildings.
- Once base building systems are installed, making significant changes is often difficult and expensive. Many of our existing buildings use natural gas, which is considered a high-carbon fuel source. Demand for mixed fuel buildings could decrease because tenants are looking to reduce their carbon footprints. If so, this could place us at technology risk because transitioning to a lower-carbon, all-electric building through retrofitting an existing mixed fuel building is difficult. This is because the current technology that enables switching from gas to electric heating is not yet cost-effective.

Market Risk

- While we believe we will remain an attractive landlord in comparison to other West Coast landlords, tenants could decide to leave our area entirely for parts of the country where utility costs are lower and there are fewer environmental regulations. Sourcing materials for our buildings could become increasingly expensive, and there could be disruptions to the supply chains of our building materials, potentially extending construction times or preventing us from delivering buildings on time. Demographic changes resulting from climate change could prevent us from being able to source the labor needed to develop and operate our properties.

Reputation Risk

- We do not believe that we are at extreme reputation risk due to climate change. However, real estate as a sector contributes approximately 40% of global climate emissions, and despite our efforts to differentiate ourselves as climate leaders investors could decide to scale back on investments in our sector as a whole, which would impact us.

PHYSICAL RISKS

Acute

- We do not believe we are at short term, acute physical risk as a result of climate change, as our assets are not in locations currently prone to flooding, fire or extreme heat, which are the three physical risks likeliest to impact our portfolio.

Chronic

- We believe that longer-term shifts in climate patterns may lead to exposure to flooding due to sea level rise and extreme heat, or extreme rain in some of our regions. This could result in reduced revenues because of negative impacts on our workforce and/or our tenants, increased operating and capital costs, and increased insurance premiums. Sustained higher temperatures could also make certain of our markets less attractive to tenants.

OPPORTUNITIES

Resource Efficiency

- We see many opportunities to improve our business in the face of a changing climate. As more drivers switch to electric vehicles, we could see increased revenues from charging stations. Increased diversion rates could lower our waste costs. We have the opportunity to reduce our energy and water consumption enough to cause operating cost decreases, and not just avoidance of increases from higher rates. We also believe that our buildings that have earned prestigious sustainability certifications could increase in value. Health programs and employee satisfaction in our proactive environmental stewardship could benefit our workforce management, resulting in lower costs from turnover.

Energy Source

- We believe we will have the opportunity to increase our revenues through procurement of additional offsite and onsite renewable power, expanded battery storage and energy efficiency installations, as well as through sourcing renewable power from the grid. We anticipate returns on investment in low-emission technology through the Innovation Lab in reduced operating costs, and we may experience increased capital availability if more investors favor lower-emissions real estate assets. We may also see reputational benefits resulting in increased demand for our properties.



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Products and Services

- Our largest climate change opportunity is in increased tenant demand for our buildings that outperform their peers in the market on sustainability. We have the opportunity to achieve even more aggressive environmental targets in our development pipeline, as well as make existing assets more attractive. This would put us in a better competitive position that reflects shifting consumer preferences for lower-carbon buildings, resulting in increased revenues. We could also benefit from reduced insurance premiums relative to our peers.

Markets

- We have a well-established history in taking advantage of public sector incentives to improve the sustainability performance of our portfolio, and we believe we will have the opportunity to take advantage of similar incentives in the future. We also foresee opportunities arising from diversification of financial assets, such as through potential additional green bond offerings. Our first green bond offering in 2018 has already diversified our investor base by drawing increased interest from ESG-focused investors.

Resilience

- We believe that our proactive risk management programs, in both physical infrastructure and emergency response planning, increase the resilience of our buildings, and that we could experience increased market valuation as a result. We also think that our buildings could be perceived as more resilient and therefore receive increased rents from tenants that are looking for buildings that can better ensure business continuity.

Reputation

- We believe that our reputation could benefit through increased confidence from stakeholders, including winning faster support for our development projects from local communities and municipalities. Continuing to earn recognition as a global leader in climate change mitigation and sustainability could further ensure we are looked on favorably by the investment community when that community increasingly looks for climate-positive investments.

CLIMATE CHANGE RISK MANAGEMENT IN ACTION

We manage climate change risks and opportunities at each state of the building cycle:

ACQUISITIONS	We conduct deep due diligence during the acquisition phase which includes building resiliency, energy and water consumption, building safety and materials, social impacts on the local community, certifications, environmental regulations and risk of disasters such as earthquakes and flooding. This can involve Phase I environmental studies, structural evaluations, and property condition reports.
DEVELOPMENT	We are currently exploring a range of mitigation strategies to cope with potential sea level rise and other climate-related impacts. This includes putting important equipment on risers or relocating it from basements entirely. We have longstanding expertise in planning for seismic events by incorporating seismic gas shutoff valves, increased sprinkler seismic bracing, and locking sprinkler valves in the open position for relevant projects.
OPERATIONS	In 2019, we ensured that all of our buildings have Emergency Response Plans that outline a building’s response to particular emergency scenarios that contemplate extreme weather due to climate change. We also use a mobile-enabled system to quickly communicate to employees and tenants in the event of an emergency. In addition, though we have no property in a FEMA floodplain, we have benchmarked our buildings for their flood risk under a 10-foot sea level rise scenario, which we believe to be a reasonable result of current 100-year climate change projections. A significant portion of our portfolio would be impacted under this 100-year scenario and our Emergency Response Plans also address flooding risk. In addition, we conduct energy risk assessments through ASHRAE Level II energy audits and retrocommissioning studies; we conducted these audits across 600,000 square feet of space in 2019.

Climate Change Metrics and Targets

We follow the WRI/WBSCD GHG Protocol to develop our Scope 1 and 2 emissions inventory. We report both location-based and market-based scope 2 emissions. Our reported emissions are independently assured by DNV GL. Further, both our emissions and our targets for reductions were validated by Science Based Targets in 2018. ⁽¹⁾ Recognizing the importance of reducing our Company’s greenhouse gas impact on the environment, we have committed to achieving carbon neutral operations by year-end 2020, as described further below. For Scopes 1 and 2, this exceeds our carbon reduction goals previously validated by Science-Based Targets, which was a 72% reduction across Scopes 1, 2 and 3 by 2050. We anticipate that approximately 25% of this reduction will be created through the use of renewables and the remainder through other carbon reduction activities.



BATTERY STORAGE INSTALLATION AT OUR LONG BEACH PROPERTY

(1) Science-Based Targets is a collaboration between the Carbon Disclosure Project, the United Nations Global Compact, the World Resources Institute and the World Wide Fund for Nature, which independently assesses and approves the carbon reduction goals of companies.

2019 EMISSIONS PERFORMANCE

6.5%↓ LIKE FOR LIKE
EMISSIONS
REDUCTION
FROM 2018

3,082 TONNES
SCOPE 1 ABSOLUTE
EMISSIONS

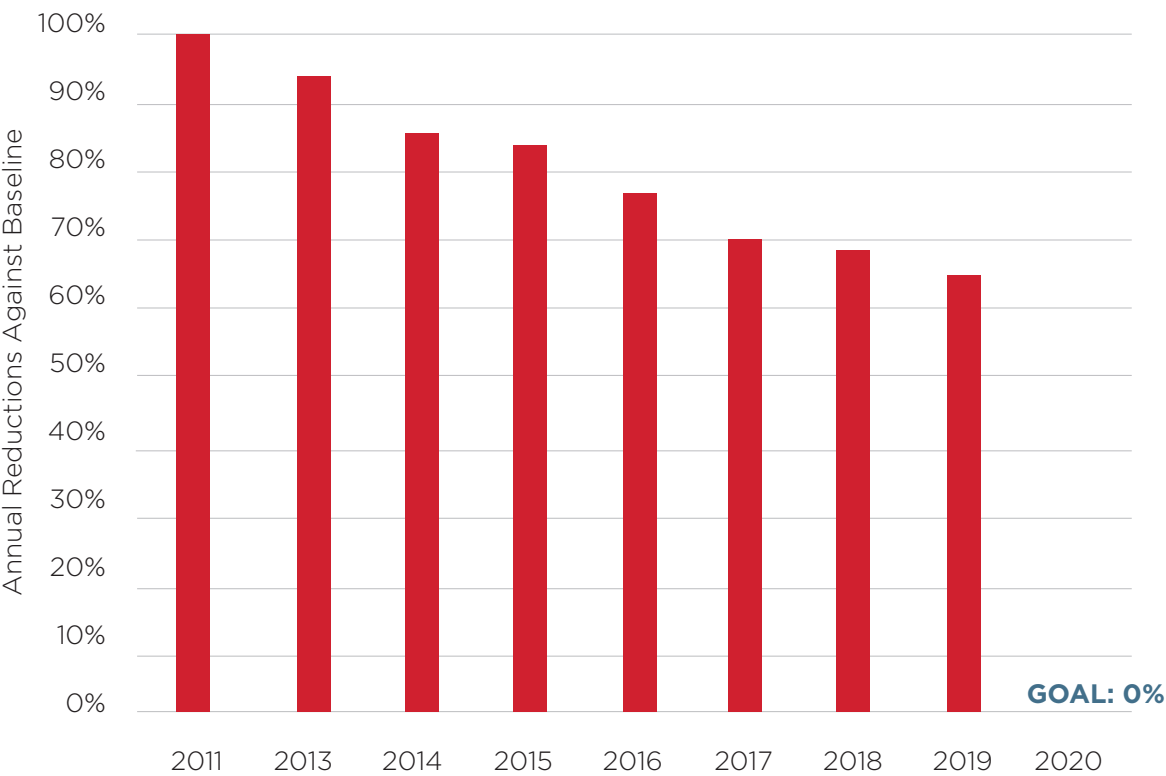
25,438 TONNES
SCOPE 2 LOCATION-BASED
ABSOLUTE EMISSIONS

24,718 TONNES
SCOPE 2 MARKET-BASED
ABSOLUTE EMISSIONS

3.3 KG CO2E/SF
2019 EMISSIONS
INTENSITY

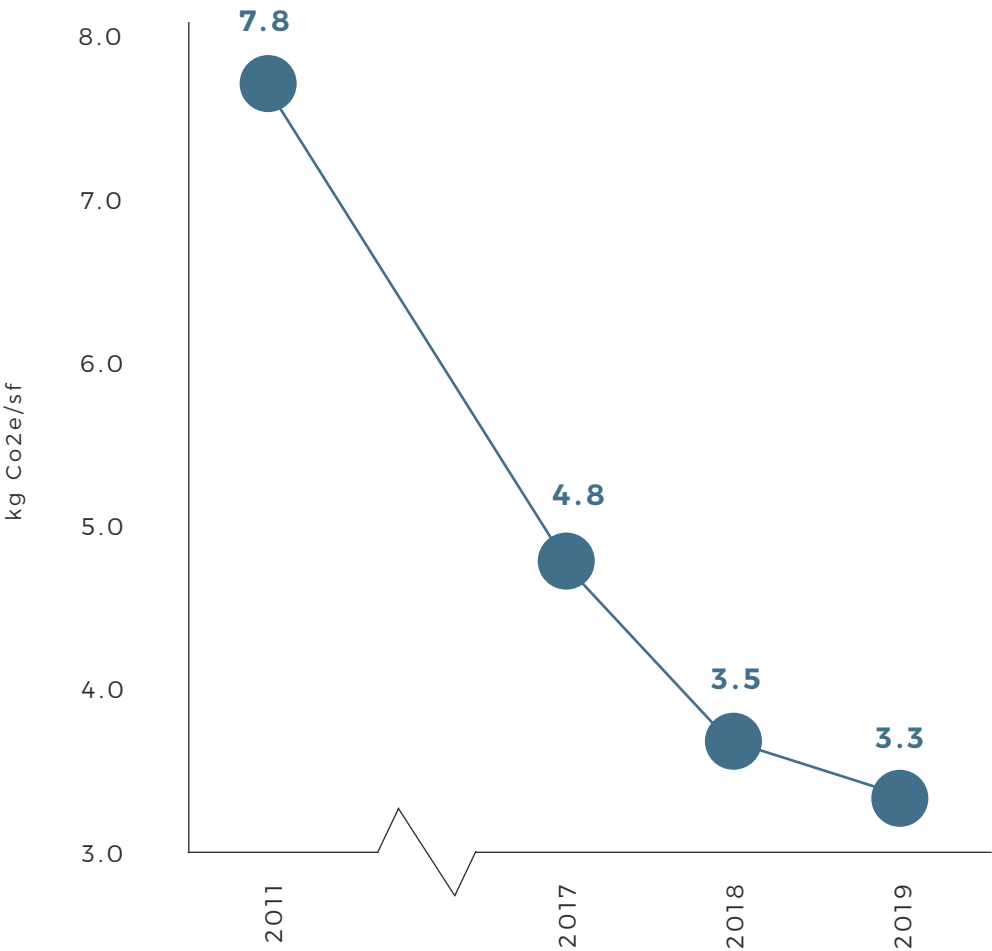
58%↓ REDUCTION
IN INTENSITY
SINCE 2011

NORMALIZED EMISSIONS AGAINST 2011 BASELINE*



*Emissions are calculated on a like-for-like basis each year. Buildings are excluded from the like for like portfolio if they were bought or sold within the current or previous reporting period, or stabilized in the reporting period

EMISSIONS INTENSITY REDUCTION OVER TIME*



*Intensity figures are calculated based on LFL performance and square footage as reported in our sustainability disclosures in the reporting year, except for where data has been restated

For full carbon data, please see page 146