

## **SUSTAINABILITY SYMPOSIUM**

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Talking Points for Slide Presentation

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### **1: Symposium on Sustainability: Profiles in Leadership**

Good morning. I'm Diane Morefield, senior vice president of Investor Relations at Equity Office Properties Trust, the nation's largest real estate investment trust (REIT), as well as the nation's largest office building owner.

### **2: EOP Profile Slide**

I'd like to take a moment to brief you on Equity Office. This slide summarizes our key statistics. EOP is the largest owner of office buildings in the country. We own 25 million sf of office space in 670 properties. Our total capitalization is \$28 billion.

### **3: Portfolio Growth**

EOP has quadrupled in size since going public in July of 1997. This growth has been a combination of single asset and portfolio acquisitions, along with three major mergers: Beacon (1997), Cornerstone (2000) and Spieker (2001).

### **4: EOP national map**

We have a national footprint with buildings located throughout the country in 38 metropolitan areas. The properties are managed at the local level through 11 regional offices.

### **5: Sustainability (Transition)**

### **6: "Sustainability"**

Let's take a look at the definition of "Sustainability." According to the Dow Jones Sustainability Index, sustainability measures a company's ability to achieve its business goals and to increase long-term shareholder value by integrating economic, environmental and social growth opportunities into the company's business strategies.

Equity Office takes sustainability quite seriously. Last year, we were contacted by the Dow Jones Sustainability Index to complete an extensive survey to see if we qualified

for the index, which is a global listing of companies that meet a predetermined level of sustainability. EOP is one of only 30 U.S. companies – and the only REIT -- currently on the Index.

**7: Equity Office's Sustainability Practices**

To give you a brief overview of Equity Office's sustainability practices, I'd like to cover these key areas of interest:

- Our charitable giving program
- Our employee programs
- And our energy management efforts.

**8: Charitable Giving Program (Transition)**

While most of us are aware of the intangible benefits a strategic and solid philanthropic effort has for a company, I'd like to review our take on these advantages.

Externally, charitable giving can improve customer loyalty, enhance a company's reputation, bring positive name recognition, and create new or strengthen existing relationships with community leaders.

Internally, a strong philanthropic effort can give a company a competitive advantage in attracting and retaining employees. According to one study (Cone/Roper Cause Trends Report 1999), 87% of employees at companies with philanthropic programs feel a stronger sense of loyalty to their employers.

**9: Charitable Giving Program**

- Education
- Arts & Culture
- Children's Health & Welfare
- Red Cross Disaster Relief Fund

Equity Office has structured our charitable giving program to provide guidance, but flexibility, for our field offices. Our general themes for this initiative are Education, Arts and Culture, and Children's Health and Welfare.

We chose Education because it addressed the need for an educated workforce within EOP and within our customers' companies. This effort includes support for local schools, literacy programs, mentoring programs, academic programs, and scholarships, as well as opportunities for disadvantaged youths.

Arts and Culture initiatives speak to our interest in contributing to the health and vitality of the communities in which we have a significant presence. By facilitating the "24-hour

city” within our CBD locations, we help encourage “live, work, play” environments, which help draw knowledge workers as customers and community members. Specific activities include support of museums, galleries, theaters and cultural venues.

Next, Children’s Health and Welfare. I think we all recognize that helping children in need has the strongest appeal of most any charitable effort. This area of our program appeals strongly to our employee base. Efforts to date have benefited children’s hospitals, research funds, immunization programs, and initiatives that provide children with housing, clothing, hunger relief, and abuse treatment and prevention.

And finally, the tragic events of September 11<sup>th</sup> have moved us all to find ways to help those effected by this national tragedy. In the sixteen days following the terrorist attacks, our employees contributed over \$100,000 to the Red Cross Disaster Relief Fund and Equity Office proudly matched those contributions for a total of over \$200,000. Our corporate office and many of our properties have scheduled on-site blood drives to allow our employees and customers to continue to support the Red Cross with needed blood in the coming months.

**10: Charitable Giving Program – Chicago Cares Serve-a-Thon**

Each year our corporate office (and Chicago property staff) participates in the Chicago Cares Serve-a-thon, which is the single largest community service event in Chicago. The Equity Office team was represented by more than 200 volunteers. We ranked among the Top 10 in volunteer turnout out of the 150 companies that participated in this event. Our team completed a variety of projects at four schools on Chicago’s West and South sides. Together we painted more than 800 lockers, 20 rooms, 70 doors, 12 stairwells, a fence, playground equipment, benches, line games and a number of murals.

Also this year at the corporate level, we made donations to the Museum of Science and Industry, and the Chicago Foundation for Women.

**11: Charitable Giving Program – Running Teams Take the 5K Further**

At the field level, Equity Office sponsors and participates in many charitable activities, but the 5K foot race has become one of the most consistently popular.

One of our more recent and successful 5K’s occurred in Stamford, CT, raising more than \$66,000 for the Stamford Boys and Girls Club. Other races this year have included the:

- JP Morgan Chase Corporate Challenge in San Francisco, which supported “Teach for America,” a not-for-profit organization that recruits teachers for schools in low-income areas.

- Dad's Day 5K in Dallas. EOP has been involved for five consecutive years in this event, which features a variety of unique activities, such as a father and son look-a-like contest and a "diaper dash" where babies crawl to their fathers. All proceeds from the event go to help the prevention of cancer.
- Equity Office sponsored the 2<sup>nd</sup> Annual 4K Trail Run in Boston, on September 20th raising \$27,000 for Outward Bound (\$17,000) and the American Red Cross (\$10,000).
- The RACE (Run for Atlanta's Children and Education) in Atlanta, which our local team hosted and promoted. In only its second year, this race has become one of the top fundraisers for the Atlanta Boys and Girls Club. This year's event raised more than \$43,000.

Among the other causes Equity Office has targeted at the local level are: AIDs prevention; child welfare, education and development; arthritis, diabetes; the Heart Association, Special Olympics and others.

Equity Office's chairman, Sam Zell, also gives of his considerable resources to many charitable activities. Sam has contributed substantial gifts to the University of Michigan and the Wharton School at the University of Pennsylvania to support higher education and to the Robert Lurie Cancer Foundation at Northwestern Hospital to research treatments, and hopefully find a cure, for cancer. He has also established the Zell Foundation, a private foundation that seeks and supports worthy philanthropic causes in a variety of fields.

#### **12: Employee Programs (Transition)**

You have heard the expression that charity begins at home. Well as a company, we believe that sustainability begins at home. Equity Office has developed a comprehensive employee benefits and development program that indicates success in meeting employee needs as evidenced by our low turnover rate. Equity Office has an average turnover rate of less than 10% where as the industry-wide turnover rate is estimated to be as high as 30%. This shows one of the direct "cost-benefits" of sustainability programs.

#### **13: Employee Programs**

Based on a study done by Mercer Consulting for EOP, we introduced a new "Total Rewards Program" for employees in 1999. This comprehensive program is based on best practices found in corporate America, as well as on employee input garnered in focus groups and surveys. Equity Office's Total Rewards is comprised of three key components: Compensation Package, Training and Development, and Work Environment.

Considerable time and attention have been dedicated to designing flexibility into all of our programs. This flexibility was critical if we were to truly help employees tailor their reward programs to their lifestyles.

#### **14: Compensation Package**

We provide employees with market-competitive base pay programs focused on performance, with annual reviews and opportunities for discretionary awards for “above and beyond” achievements.

We provide broad-based stock options for all eligible employees.

We offer an employee share purchase program, which provides a 15% discount on share purchases. Combined with EOP’s 401K 4% contributing match program and the stock option grants, the share purchase program helps our employees prepare for retirement.

Also included in Total Rewards are Flexible Spending Accounts, which allow employees to allocate pre-tax dollars to pay deductibles, co-pay payments and other kinds of uncovered health expenses. Our Transportation Spending Accounts also allow employees to allocate pre-tax dollars toward their commuting costs.

Another valued benefit is our Paid Time Off or PTO Program, which pools vacation, sick and personnel time, so employees can use time off however they see fit.

And medical, dental and vision coverage is made available to the domestic partners of our employees.

#### **15: Training and Development**

While strong pay and benefits are critical to attracting and retaining employees, the areas of Learning and Development and Work Environment offer us the opportunity to truly distinguish Equity Office from other employers.

Among our Training and Development programs are:

***Leadership and Management Development*** training programs Equity Office provides internally are:

- A Leadership Forum, led by our CEO which brings senior vice presidents and up together to discuss strategies and issues, and is held at least twice a year.
- A National Conference, which provides a three-day forum for about 650 EOP managers from across the country.

These forums help communicate the strategy and business goals and challenges for the company throughout the year.

**Employee Development** is a defined part of our Performance Measurement and Management Program. Each employee is required to pursue a minimum of one or two developmental goals each year with coaching from his or her supervisor. In addition, all employees receive education and training through various means such as our National Conference, Regional and Departmental Conferences, Mentoring Program, and targeted programs on topics such as Equity Office's Brand, managing priorities, and interdepartmental collaboration.

**The Education Assistant Program**, which provides employees with financial support for job-related courses or courses related to approved degrees. The program pays 100% of eligible tuition expenses up to \$5,250 per year for full-time employees. We currently have more than 127 employees taking advantage of this program.

Employees are also encouraged to participate in various industry associations, and community and local organizations, as well as in professional associations that will further their personal and professional career growth.

Finally, I'd like to note that Equity Office's 300+% growth over the past few years has created exceptional advancement opportunities for employees, including existing employees and those who have joined the company through mergers and acquisitions.

Particularly, the growth of our enterprise-wide technology initiatives, human resources programs, and new products and services have created internal opportunities and have allowed us to bring new skills and competencies into the organization.

## 16: **Work Environment**

Which brings us to Work Environment, the third component under our Employee Program. Work environment can be greatly enhanced when employees understand their roles within the company, when they feel appreciated, and when they believe they have impact.

That impact is seen and heard through EOP's Voice of the Employee survey. This survey provided the avenue through which many of our employee programs were formed. The Lobby, EOP's Intranet site provides a one-stop-shop for company resources and company-wide communication.

Equity Office has developed a number of initiatives to foster a rewarding work environment.

We have developed a streamlined Performance Measurement and Management Program, which I referred to earlier, that aligns an employee's goals, with his or her

department and with the overall company's goals. This helps employees understand how they contribute to the bigger picture.

Many other programs, such as Flexible Work Arrangements and Employee Referral Programs, also contribute to the work environment we have created at Equity Office.

**17: Energy Management (Transition)**

Another area of sustainability in which Equity Office has excelled is energy management. Proactive energy efficiency measures benefit landlords and tenants by offering savings in long-term operating costs, and helping the environment. We differentiate ourselves in this area by having

- highly trained in-house professional engineers,
- by using sophisticated building and system simulation software,
- by consistently monitoring our building's energy usage,
- and by making efficiency a priority.

**18: EPA Energy Star Buildings**

Pictured here are a few of our energy Star Buildings in San Francisco, Seattle and Boston. As many of you probably know, the EPA's Energy Star Program was introduced in 1992 as a voluntary labeling program designed to identify and promote energy-efficient products. The program has since been extended to include buildings, and has become a real estate industry benchmark, the "Good Housekeeping" seal of energy, if you will.

Frank Frankini, EOP's senior vice president of design and construction and an engineer by trade, leads our energy conservation efforts.

- He assisted the EPA in developing the Energy Star program,
- He was one of the authors of the TRANE Air Conditioning Economics Program (TRACE), and
- Frank also worked closely with the California Electric Utility companies to implement a demand-side management program that manages electrical loads to respond to utilities' requests during peak demand hours.

In fact, Frank was presented with the EPA's 2000 Climate Protection Award on behalf of the Real Estate Roundtable. Frank is the Chairman of the Real Estate Roundtable's Energy Efficiency Working Group and the award recognized the association for encouraging broad real estate industry commitment to energy efficient "green building" principles and technologies.

Equity Office has used technology to move beyond the routine building energy audits typically conducted every 18-24 months. We use a progressive computer-based analyst system to evaluate adjustment costs through computer modeling technology.

By using energy computerized analysis software, Equity Office engineers can evaluate a property from top to bottom, and map out various energy efficiency scenarios. With these technical advances, engineers can analyze energy use by comparing building improvements and by calculating the expense benefits of converting existing systems. The software evaluates how the "retrofit" building would perform and provides an estimate for the new energy bill.

Equity Office is also in the process of installing specialized metering, which allows engineers to evaluate energy demand on a real-time basis. With this new technology, we expect to be able to assess and project energy demand, as well as more strategically execute energy purchasing.

**19: EPA Energy Star Buildings (Portfolio statistics)**

According to the EPA, Equity Office has the largest portfolio of Energy Star buildings of any single office building owner in the country with 63 buildings totaling 25 million sf having this designation.

Equity Office continually reviews buildings for the Energy Star Program

Currently 65% of our buildings in Texas have the Energy Star label and 28% the buildings we own in Denver.

As of the end of the 2<sup>nd</sup> quarter, 15 % of our portfolio had the Energy Star label. On July 2<sup>nd</sup> we complete our merger with Spieker properties in California. None on the 25 million sq. ft we acquired through that merger had the label but it is now in the process of being evaluated.

**20: Energy Star Case Study – Polk & Taylor Buildings**

Our Polk & Taylor buildings in suburban Washington D.C. have had the Energy Star Label since October 2000. These two buildings are 95% leased to the government services administration. This May, President Bush highlighted the Energy Star program as being at the heart of his national energy policy and stated that all buildings substantially leased to the GSA must have the Energy Star label.

**21: California Energy Efforts (Transition)**

Nowhere has energy been a more prominent issue recently than in California. As the largest office building owner in California, Equity Office has a vested interest and responsibility to further energy conservation efforts in this part of the country.

With a combination of technology, communications and simple procedural changes, we have been able to impact the energy use in our buildings.

## **22: Communication with Customers**

I'll use Los Angeles as a case study. One of the first things we did internally was to form 12 Customer Focus Groups to gather input and secure tenant participation. The structured outreach to companies housed in our buildings resulted in an unprecedented sharing of ideas and collaboration. Customers took advantage of many of our tips, such as:

- turning off lights in exterior offices,
- raising the thermostat one degree,
- using centrally located copier and printers, so infrequently used equipment can be turned off, and
- closing or tilting window blinds to block the sun.

Our Los Angeles team also developed emergency conservation guidelines in preparation for peak summer demand. A list of voluntary measures was distributed to our property management teams, so they could work with customers to help reduce energy loads prior to brownouts.

We asked our customer contacts to distribute formal requests to their employees to conserve energy use and to contribute any conservation ideas they might have.

## **23: Building Operations**

To enhance efforts made by customers, our Los Angeles team reevaluated every use of energy at the property level. We began by dimming 50% of the light in our lobbies and common areas. We posted lobby signs to explain why the lights were off and to lead by example.

We also cut the external lighting used for architectural or decorative purposes, including lights on spires and fountains, making sure not to compromise safety and security.

Leveraging today's technology, our LA team took the retrofits we've executed in our Energy Star buildings one step further. The 10-step program we followed in this market included:

- Lighting retrofits with energy-efficient lamps.
- Installation or upgrading of energy management systems (EMS). Including advanced automation devices such as chiller optimizers, and air-handling and demand-limiting enhancements. These fully automated system

additions are expected to yield up to a 25% savings compared to manual systems.

- We also installed solar reflecting film on our buildings' windows.
- Converted to high-efficiency equipment.
- Installed variable frequency fan and pump-control drives.
- Ensured direct-generation ice storage is used to help shift energy usage for more efficient coverage.
- Used computerized maintenance systems to maintain efficiency. One example of this is the installation of a Demand Side Management Program, which allows the local utility to send us a communication to reduce energy load when a demand spike is pending. We will then reduce energy to less critical areas, such as hot water heating systems, chillers and fans.
- We participate in the state's rebate program, which provides financial incentives for demand side management retrofits and for on site generation projects.
- We formed partnerships with BOMA and various janitorial unions. Our alliances with cleaning crews has allowed us to switch to "team cleaning," a new concept that concentrates cleaning crews on one floor at a time instead of having them spread out over multiple floors. This helps us reduce the time the lights are on after-hours from approximately 4 hours to just 1 ½ hours. Across an MSA portfolio of more than 7 million square feet in 48 buildings, you can see how this can add up.
- Finally, we created a consortium with other building owners to share ideas and counsel the governor's office. The consortium is spearheaded by Equity Office, Arden Realty and the Irvine Company, and represents California office landlords that own over 300 million square feet of space. The purpose of this group is to share information, best practices and ideas, and to advise the state on energy initiatives. The consortium is currently working with BOMA and state officials to craft an implementation plan that will provide concrete energy enhancement recommendations in commercial real estate throughout California, including in the state's own buildings.

The retrofit costs range from \$100,000 to \$300,000 and typically has a 2-3 year payback period.

#### **24: Partnering with Energy Providers**

We have partnered with energy providers to buy energy to service our buildings. We have work with

- Reliant Energy
- Dynegy
- AES New Energy
- Enron (formerly PG&E)
- TXU Corporation

Total utility costs at EOP are approximately \$250 million per annum and our programs provide cost savings of approximately \$15 million (or 6%).

**25: Sustainability – Equity Office (Transition)**

To be honest, when we went public we did not really use the term “sustainability.” But one of our first tasks was to develop a Mission Statement.

**26: Equity Office Mission Statement**

Equity Office’s mission is to be the office company of choice and to be valued by employees, customers and investors as partners in their success.

We recognize that all three constituencies are equally important.

Sustainability should be an outcome of our mission and our strategies, versus a goal in and of itself. If we successfully execute our strategy and focus on employees, customers and investors – we will continue to build a company with sustainable earnings growth.

Part of those goals include, philanthropic efforts, employee programs and energy conservation which we covered here.

In many ways the concept of sustainability is similar to a brand. You only achieve it by doing a lot of “little” and “big” things right all along the way. We believe EOP is well positioned to build a national office brand and a “sustainable” investment reputation. While often intangible, sustainability speaks to a company’s bottom line. These efforts help provide for the future and contribute to our brand definition.

**27: Recent Equity Office Awards**

Some areas where we have been recognized for our efforts recently include:

- Fortune Magazine’s Most Admired Companies: #1 Real Estate Company
- Forbes Best of the Web: The Magnetic 40
- Chicago Magazine’s 25 Best Companies to Work For

- The Dow Jones Titans – Financial Services Sector
- The Dow Jones Sustainability Index

And just a few weeks ago, Standard and Poor's changed their index criteria to allow REITs and Equity Office was the first REIT to be admitted into the S&P 500.

**28: Financial Results**

At the end of the day we are a public company and our ultimate focus is profitability. Since going public in mid-1997, we have had excellent financial results. We have increased our FFO per share by 73% (24.3% annually) over the past three years and increased our dividend 67% per share (22.3% annually) for an Average Annual Total Return of 17%.

**29: Investment Merits**

I want to close with some investment highlights on EOP:

- Industry leader
- National Portfolio of high-quality office buildings
- Innovative leadership and proven operating strategy
- Geographic and economic diversity
- Stable and growing cash flow
- Attractive dividend yield
- Superior access to capital
- Excellent liquidity with the highest trading volume of any REIT stock
- Well-positioned for future growth

All of these qualities speak to the ongoing sustainability of EOP as a nice place to work for our employees, a good landlord for our tenants and an attractive investment vehicle for our investors.

Thank You.