Owen Thomas:

But as I always say to my team here, when you start in a leadership job, you're appointed. But over time, to be successful, you need to be elected. Your team, your clients, your shareholders, your investors, whoever those constituents are, they need to elect you to that job over time.

Matt Slepin:

Hi, this is Matt Slepin, and welcome to Leading Voices in Real Estate and our first episode of 2022. Today's guest, someone I've wanted on the show now actually since we started back in 2017, is Owen Thomas, OT to his friends, the CEO of the nation's largest office, Boston Properties. Owen truly exemplifies leadership in our industry in at least three distinct parts of his career. First, in climbing the ladder and then leading Morgan Stanley's real estate business, a second career after his, air quotes, "retirement" from Morgan Stanley but now in his ninth year as CEO of Boston Properties, and third, which we do not get to dedicate enough time to as a corporate citizen in the real estate world, is the immediate past global chair of ULI, and who recently made a $1 million commitment to the ULI Foundation to help fund its Net Zero Imperative initiative around carbon reduction strategies for our industry.

Quiet, thoughtful leadership lessons with no self-aggrandizing comes up throughout the interview. I love this conversation. And we'll also, of course, talk about Owen and Boston Properties since, I think the conversation was pre-Omicron, about short and mid-term predictions for where we settle into a normalized back-to-the-office world. This conversation with Owen kicks off our fifth year of Leading Voices. Our first episodes were in January of 2017. This podcast host thing is something I never expected to be doing for so long. I thought it would be a fun year-long project versus something that would so influence and define my work life, and my wife Diane would argue, and it's true, my life life. I'm excited about this year, where we'll keep exploring different perspectives, different success stories, and different ways that leaders in our business are impacting the built environment. This month's programming is an example of the fun and schizo nature of Leading Voices where today's episode is with Owen, truly one of the legends in our business.

And in two weeks, we release my conversation with Laura Foote, well under 40 years old, who's a leader in the YIMBY, the "yes in my backyard" movement. I cannot imagine two, both leaders in their own right, people in our business who play in such hugely different spheres. But that's the real estate business, and part of the fun of hosting Leading Voices. Which is actually the satisfaction that I also get from our work at Terra Search Partners that search professionals in real estate. You think search is all about uber roles in traditional asset classes, but in our work, like on the podcast, we get to have deep dives across similarly vast diverse parts of the industry. Last editorial comment, welcome to 2022. It got to be better than 2021. This was a best of times and worst of times year, but a hard one.

Crazy heights in the real estate markets, continued COVID now with Omicron, continued political dis-consent, more fires. And personally, I lost both of my parents and also turned 65. That's a lot of personal passages for me, which brings a maturing perspective and point of view, which I'm sure comes across on the show. I do thank you, our listeners, and my team at Terra Search Partners once again for giving me this platform to explore and keep learning myself. That said, please keep on listening to the show. Please follow us on your favorite podcast app, and as always, please share your favorite episode with friends and colleagues. This conversation with Owen might just be one of those. If you have comments or questions, please feel free to email me at matt@terrasearchpartners.com. Enjoy the episode.

Owen Thomas, welcome to Leading Voices in Real Estate. We've been talking about this for a couple of years, and I'm thrilled to have you as our first guest of 2022, even though it's 2021 right now. So we're entering that year. You're our first guest in a while talking about the office business, which is the foggiest business for me when I think about the future and where things are going, and what work means, and what offices mean, and the ego of office, and all the rest, which we're going to talk about today. But I'm thrilled to have you on the podcast. We'll start with office. We'll talk about you and your background, and then we'll talk about some general topics relating to real estate. So thank you for being on the show.

Owen Thomas:

Great, Matt. Well, terrific to be with you, and thanks for having me.

Matt Slepin:

Thrilled to do it. Let's start with your elevator speech summary of the business and footprint of Boston Properties, just to orient our listeners to you and what you're doing right now.

Owen Thomas:

Yeah. So Boston Properties is the largest company in the US that is focused on office assets. And we're an S&P 500 company, trade under a BXP ticker. Even though we're large, we have 52 million square feet that we own and manage, and then we are always building five or six million square feet at any one time, which we are now. Even though we're large, we're focused on specific areas of the country, most notably coastal gateway markets. And we can talk about why that is, but those include of course Boston, New York, where I am right now, Washington DC, San Francisco. And then we entered LA three or four years ago, and we entered Seattle three or four months ago, and so we're now in those cities as well. We're among the biggest landlords in the cities that we're in, except for LA and Seattle, where we just got started.

And I think we are the biggest landlord in Boston and in San Francisco. I think importantly, when you think about us is... Yes, we own all these assets, and many of them are very well-known in their cities. They're not all trophies, but we own things like the Salesforce Tower, the General Motors Building in New York, the Prudential complex, the 200 Clarendon Street in Boston, Reston Town Center. So we have very high-quality assets that are well known. But I also think importantly, the company's DNA is a developer. Most of the external growth that we generate is through development, and many of the staff that we have are development. We have a lot more development and construction people than we have acquisition deal people, a lot more.

And if you think about the company's growth, we really haven't done an M&A deal. We're big, and it's been built basically one building at a time, either through development or through acquisition. So I think that's a unique feature. And then it's fully integrated. So every region has a leasing team, a development team, a construction team, property management team, legal team. So we do all of the... We're vertically integrated company, does all this work.

Matt Slepin:

And do you have Class B assets? Is it all Class A? And do you have life science as well as traditional office?

Owen Thomas:

We do. Life science is about 6% of the company, and we have a very significant development and redevelopment portfolio in life science that we control. And I've been saying to the market that I think we can double that 6% allocation to life science over the next five years. And then look, I don't think... If we have anything that's really Class B, we've probably sold it. We sell 3 to $500 million of assets every year, and not everything we own is obviously like the Salesforce Tower. So there are varying, I guess, grades of Class A, you might say. But anything that we would call commodity, we don't want to own it. And by the way, that's an important point, particularly as we talk about office assets is: How do you define a unique and premier building versus a commodity building?

And the way I do that is if I feel that the way we're leasing space in a building is because we're leading with price, then we have a commodity asset. In other words, if we're trying to attract a tenant or client to a building, and we're saying, "Hey, it's the cheapest alternative," then I don't think we have the right asset. But if the pitch is leading with, "We have the best amenities. We're right next to the subway. We have this window line," et cetera and we're leading with those things... Look, price is always important, believe me. But as long as we're leading with these other factors, then I feel like we've got something that's more distinctive and more high quality.

Matt Slepin:

Of course. It's funny, we do the same in our business. So if we lead with price, we're screwed. It just doesn't work. I'll tell you a funny story. When I started in search, I talked to a friend. My first office in search was in Embarcadero Center 3. And they talked to a friend a couple years later when I was planning the next step of my search career, and I said, "What's the secret? What do you do?" And this woman named Lynn Sedway, who you might know... And Lynn said, "Got to be in Embarcadero Center. That's the way to establish credibility." And that metric may have changed over time, and it may change coming out of COVID, but it's still the case, and that's your value proposition in premier office space.

Owen Thomas:

Yeah. Well, Embarcadero Center's a great example. I mean, we're having a lot of success leasing it even during the pandemic, because again, what we lead with are the views. If you're in a high floor in those buildings, you have wonderful views of the bay and the Golden Gate Bridge, and the floor plate really works for a lot of different types and sizes of tenants. And those are driving a lot of the decisions. Price, again, is always a part of the conversation, but that's what is... And of course, the location of where it is, proximity to the ferry and subway system and that kind of thing.

Matt Slepin:

Yep. Well, we'll come back to that in a few minutes. Now, one comment, a quote from your website, it says, "A foundation built on people over places." And our last guest was David Stanford from RealFoundations, and we talked about the equalization between assets themselves, which you've talked about so far, and the business platform, which is kind of a separate but hopefully coequal thing. But you lead with that on your website. Talk about that.

Owen Thomas:

Yeah. Well, when you talk about a company, as I just did... I did talk a lot about where we are and what we own, but I also talked about what we do, which is building and managing and being vertically integrated. And real estate is not static. It is a capital-intensive industry. If you look at our margins, cost of capital is a big piece of it, more than compensation expense. So you're going to end up talking about assets. But real estate is not static, and it needs to be nurtured. So as I described earlier, first of all, we build buildings, and that's not easy to do, and particularly in the cities that we're in. So there's tremendous expertise that's required by your team and identifying the right sites or the right projects, if they're owned by somebody, generating the right partnerships, getting properties entitled, working with architects, designing great properties, and then working with general contractors and getting them built.

I mean, some of the construction statistics around the Salesforce Tower are just stunning in terms of the amount of concrete, and the foundation system, and all these things. So that requires great people. And then even buildings that once they're built, you say, "Well, what is there left to do?" There's always something to do. They need to be leased. Tenants don't stay in the buildings forever, or their leases come due, and they need to be renewed. Buildings need to be refreshed. For example, right now at the General Motors Building, we took back the second floor, which was part of a retail space, and we're making it into an amenity center.

So there's going to be a conference center and a gym, and that's a big redevelopment project going on in an iconic asset in New York City, because that's what we think is required today to maintain that building's uniqueness relative to other offerings. And then we're always talking about... Well, buildings wear out, the mechanical systems. When do you replace them? What kind of amenitization is required? We just opened here in... I'm in our 53rd and Lex campus at 599 Lex, and we just opened a culinary collective called The Hugh, which is in the atrium space at 601 Lex, which is the wedge building in New York. Used to be owned and occupied by Citibank. It's fantastic, and it's creating kinds of excitement not only for us, but for our clients in these buildings and clients in the area. And again, that took years and a lot of skill to pull all that together. So that's where the people side comes in, and the amount of things that our people do each year in terms of leasing our buildings and nurturing the assets is extraordinary.

Matt Slepin:

Yeah. And people in service really matters too. Having been in Embarcadero Center, I remember the doormen. They were wonderful folks. I remember my wife was in Spear Street Tower, then owned by EOP, and there was a doorman. I used to pick her up at the end of the day, and we'd meet downstairs. And the doorman would say, "Hey, Matt. Diane isn't down yet." He said it every day. I don't know how he knew that, because there were 1,000 people coming back and forth, but that kind of training just astonished me.

Owen Thomas:

Yeah. Again, I think that's an important point you're raising, Matt, about the importance too of property management. It's not just about the building's systems, it's about the relationships with the clients and dealing with day-to-day issues, but also dealing with bigger issues. I'll give you a great example, is the pandemic. We've had a lot of engagement with our clients about health security and what they should be thinking about. I mean, most of our clients aren't real estate companies, and they need our help to try to figure out what they should be doing with their built assets in terms of health security. And we can talk about that, but the one that's certainly going to continue post-COVID is all about air exchange and refreshment ventilation. That's a really important topic. It's invisible, and we've had a lot of education with our clients about that, the importance of it, and what metrics they should be looking at.

Matt Slepin:

Right. You have to lead the clients to figure this stuff out. Let's get into that, because I do want to talk about what COVID means, what occupancy means. I was in downtown San Francisco a month ago. I had breakfast with a friend from Shorenstein, and he said San Francisco is the deadest of the cities. He said New York feels almost normal. He said Texas feels more than normal. Talk about your occupancies on a day-to-day basis in your different markets, and how that's feeling and how that's trending.

Owen Thomas:

Yeah. So let me get some vocabulary... Make sure we're all talking the same thing. So when I think about occupancy, I think about what we report to shareholders. And right now, that's 89%, which is our least space. Excuse me, it's our least occupied space. We actually have signed leases with customers that haven't taken occupancy yet, but we'll bring that up a little bit. So what you're asking about is what we call census, which is how many people are actually in the buildings versus what were in there before COVID. And by the way, this data is getting less relevant over time, because we base it all off of who was in the buildings in February of 2020. And now that's starting to change, because tenants are changing and things like that.

But to answer your question, New York is by far the highest. And as of a couple weeks ago, we were pushing 60% census. And then San Francisco is definitely the lowest, and that was in the low 20s. And then Boston and Washington are in between, in the 30s. And by the way, these are only buildings where we monitor this. Not all our buildings have turnstiles and things like that. And it's going up steadily. I mean, there was a view, mine included, that we were going to have a step change at Labor Day. And it did improve a little bit, but the Delta variant pushed it all out. But we have seen since September, almost every week, a gradual improvement. And what we also have seen is that many of our clients, they're returning to the office.

I would say the banks and the financial service companies did it the soonest. Well actually, the property companies did it first. We did it in July 4th.

Matt Slepin:

Right. We have to prove the point.

Owen Thomas:

Yeah. But honestly, I think Blackstone was even before we were, so they're back. And a lot of the private equity asset management companies, banks are clearly, I think, more or less back in the office. Then this fall, we've started to see the law firms do it. So different law firms... We have a lot of law firm clients. They're slowly coming back. They're having reopening events, and are having people come back more. And then a lot of the tech companies are behind these other industries, and most of them have announced January or first quarter return. Now, we don't know yet what this Omicron variant will do to these dates, because we don't know what the impact is yet to the infection rate in the US, and what impact that will have.

Matt Slepin:

Yeah. I bet it pushes it back, but you just don't know. Because each time maybe you're more used to the next threat, so therefore you go back to a normalization around the threat sitting with you. Talk about... It's not going to be five days a week, so let's talk about what you think the work week might look like, and what your tenants are saying and what you're hearing from the marketplace about that. And that will put different stresses and burdens on your space, and therefore the planning for this space.

Owen Thomas:

Yeah, yeah. So let me kind of back up a little bit too, and talk a little bit about what I think is really going on with return to office. So there's definitely... Look, the pandemic created the issue, and clearly the Delta variant delayed the issue, because it was a real health issue. People were getting sick, and at least at the initial, we didn't have a vaccine or medications, and it was definitely a serious health risk. But today, that is not the case. I don't want to say there's no health risk. There is. But if you look at what people are doing in the country... Look at the football games, the basketball games. It's very difficult to get a restaurant reservation in our... Including in San Francisco, by the way. Shopping, retail, it's come back a lot.

So again, I'm not suggesting the pandemic is not a health issue, because it is, but people are out there interacting with one another, in many cases unmasked. So I think the return to office is as much about the labor shortage and the labor environment that we have in the country as it is about the pandemic right now. Now, Omicron could change that. If the infection rate goes up, I would tell you that, yes, it's about the pandemic. But right now, I would tell you it's as much about the labor market as it is about health security. I have not spoken with a business leader who likes remote work. They are worried about the decay of the culture of their companies. They don't think they're as innovative or as effective when their people are not collaborating. They have a horrible time of recruiting and retaining talent and young people getting mentored and learning what they should be learning, and they want people to come back to the office.

But many of these leaders are also worried that if they are overly prescriptive about returning to the office, that they'll lose talent, and that some of those employees will go to other firms. So I think that's driving a lot of the slow return to the office as the pandemic is. But now coming to your point about hybrid work, I definitely think the pandemic is going to have a long-term impact on office use, and I do think, as you're suggesting, that the hybrid work is going to be a more typical model. I mean, we've all learned how to use these tools better, and it's a little bit more part of how we operate. And a lot of clients that have returned to the office, many of them have said to their employees, "Come back three days a week. Come back four days a week," and we're seeing that.

So then you might say, "Well, okay, let's take an example, three days a week." Well, okay. So that's three out of five days. That's only 60% use. Is the demand for office therefore going to drop 40%? And I think that's very unlikely for the following reasons. So first of all, if you're going to get that kind of efficiency, you need to do two things. You need to schedule when people are out of the office, because you're going to have to... If you're going to reduce your footprint 40%, you're going to have to spread all those people equally, including Monday and Friday, by the way, in the office. That's not what employees want when they want a remote work benefit. They want to pick when they're out of the office. And by the way, they're going to pick Friday first and Monday second, so that's what they want. And then-

Matt Slepin:

And the company doesn't want that, because then you don't get the culture if everyone-

Owen Thomas:

You don't get the culture.

Matt Slepin:

... comes at random days.

Owen Thomas:

Yeah. To your point, the other thing that we're seeing is a lot of clients are saying, "Yes, you only have to come in three days a week, but we want everybody here on Tuesday and Wednesday, because we want that collaboration benefit. We don't want people coming in, commuting, making the effort to be in the office, and then not being able to collaborate because somebody's not in the office." So that's what we're seeing so far, is companies going hybrid are saying everybody's got to be in there on a certain day. Then the other thing, by the way, you have to do if you're going to try to save space on hybrid work is you have to go to floating work stations. That's unpopular.

Again, if you're trying to satisfy employee preference through hybrid work, employees also don't want... They want their own workspace. Gensler did a survey on this, and actually two-third... Now, this was a little bit... It was a year plus ago. Maybe things have changed. But from memory, I think that survey said that 90% of employees preferred their own workstation, which isn't surprising. What's more surprising is two-thirds of them said they would prefer that over hybrid work. So having your own desk or office, whatever the case may be when you come in, is important to people.

Matt Slepin:

Right. All this makes total sense to me, and the post-COVID world will be different than the pre-COVID world. There will be more flexibility. We'll come in a few minutes and talk about WeWork and Industrious, and kind of shared workspaces, because that's another solution which I personally love in my kind of business. But talk about what might be trendy and what's going to be permanent when people make their bets on what their space looks like and feels like.

Owen Thomas:

Yeah. Well, Matt, some of the things that you're describing were already going on before COVID. So law firms, when they renewed their leases, they were shrinking, because they were going to smaller offices and they didn't need those law libraries anymore, because it was all on the cloud and electronic, and they had changed the way they... Less assistance, or more people per assistant, things like that were already going on. But I would say the biggest trend that we have seen so far from COVID is the focus on quality. So going back to my point earlier, if you're a business leader and you don't like remote work, but you're nervous or concerned about being too prescriptive about in-person work, what you want is a great workplace.

You want your employees, when they come in, to say, "This is fantastic. My space is great. There's amenities in the area. It's easy to get to, so single-stop transit." So for example, the tour activity and leasing activity as a percentage of total in Midtown New York has gone up a lot post-COVID. It's got a much bigger market share of the leasing than it did pre-COVID, because again, it's single-stop transit. And we've also now going to have a Long Island Rail Road train come into Grand Central. It's going to open, so that's going to be helpful. So that's what we're seeing. So companies are saying, "Well, if I'm going to renew and I want to get my employees back to the office, I want to be in a great building, because I want my employees to come back. And if I have great space, they're more likely to do it." Now, as you know, we are a landlord, so we provide the location and the geometry and the window line, but each client builds out their space the way they want to.

I mean, there's some exceptions to that, and we're going to get into that, like co-working, our spec suite business, and things like that. But most of the customers or clients that we have, they build out the space the way they want to build it out. And I know the architects are very busy working with clients, trying to think through what the future of the office is, and I think there will be change. But I will tell you, so far, we haven't seen much. And we've been building big office buildings for people like

Verizon and Fannie Mae and others, and we haven't seen them make big changes from the plans that they had pre-pandemic to what they're doing now. Now, those plans already had a lot of collaboration space and outdoor space, and they were already built out that way to start with, so maybe I would say they were on the right track, I think already, before the pandemic. But we just haven't seen our clients broadly come in and say, "All right, we're going to spend millions of dollars and completely retool how our space looks."

Matt Slepin:

It's interesting, because the headlines would say that these long tables of workstations is over, at least was over when the pandemic was hot. I'm thinking people still want to be near each other, so that might be a pandemic trend, not a permanent trend. Not that packing them in makes any sense, because I think we got to the minimum size.

Owen Thomas:

Yeah. I think being been too tight... I do think there's going to be some reluctance on that going forward. One of the trends that was negative for office real estate pre-pandemic was quote "densification." These were the lot of the questions that we would get pre-pandemic, and nobody's asking about that anymore. And I think generally, people that are thinking about demand for office would say the de-densification will be a plus for the business, because it'll create more demand for the seats that are required by each client. So I don't think benches are going to go away, but I'm not sure people are going to be as close together as they used to be.

Matt Slepin:

I bet that's true. And when you're making a big bet on, say, a lobby and a design that makes people feel good, maybe that is just what it was before the pandemic, but maybe that will have changed too. Any sense of that? Because you're making those bets and spending those dollars right now.

Owen Thomas:

Yeah. I think that varies by market. I'll give you an example. New York still has the kind of what I call the minimalist, beautiful but minimalist, lobby, maybe a grand space. We have a Stella, for example, here at 599, but it's not an activated lobby. There's a security desk. Security guards are there, and so forth. But then in San Francisco, different. We just redid our lobbies at Embarcadero Center, and we activated them. We put couches and artwork in the lobby, and invite people that are using the buildings to mingle and be with each other in the lobby. So it's a little bit of a regional and local preference on that. But I still think a couple things I would say. One is, again going back to quality, the entry experience is important.

You want your employees, when they come into the office, to feel good about it and feel like it's a special place, and a place that they're proud to come to work. And then depending on the client base, if you have the right... It's hard to do it in a major 2 million square foot tower, but if you can have a dedicated lobby for a client, I think that's always preferred. We just bought a building in New York, 360 Park Avenue South, that we're completely redeveloping. And one of our plans, we can make two different lobbies.

So if we find a large client that wants to take half or more of the building, we could actually give them their own dedicated lobby. And I think that matters. Again, going back to "Why do you want to have great space," you want to create your brand and you want to create culture and connectivity with your employees. And if you're coming into a building and the lobby is dedicated to expressing your brand, and you know that you're at your company when you go in there, I think that makes a big difference.

Matt Slepin:

It's interesting. So let's talk about your markets for a minute, and let's talk about the markets you're not in that are growing, and what were the quote unquote "gateway markets" from eight years ago. The world has changed, and some of those other markets have both grown more and may have been coming more quickly out of COVID. So any comments on the markets you're not in that you might want to be in? But also, just generally from the office world, how have they fared in all of this?

Owen Thomas:

Yeah, so couple things I'd say. First of all, we focus on clusters of knowledge workers, and we've had outside experts talk to us about this, and we're students of it. And we focus on things like computer science, biology, chemistry, things like that. The six cities that we're in, they're four or five of the top five in all those categories, in terms of the numbers of the clusters of these knowledge workers. And that's why we are where we are, because we think these cities are durable over time and they will grow. And then the second thing that's really important for us is we're not a merchant builder. We're not a fund. We're not a short-term player. We're a long-term player. We're a very long-term player, because we go into a market and we set...

We're not going to go in and buy a building, hire an outsider to manage it for us, and then once we... If the business plan is achieved and our profits are made, we sell it, and then we leave town. This is not the way we operate. If we're going to a city, we're setting up all those different groups that I talked about: leasing, property management, development, construction. So we need to choose wisely at the outset, because we're building up these local franchises. So we're not going to just go in and out of places quickly. And then second, since we are not selling a lot of our real estate, it's very important that obviously we buy things well, we build great assets, but also they're in places that are going to have rents that grow over time. And to get rental growth, you need two things.

You need the demand growth, so that goes back to my knowledge cluster point, and the second is you need some barriers to supply. And the cities that we're in, they're expensive, they're complicated. They have, in many cases, challenging entitlement processes. In San Francisco, there are laws that limit the amount of development. So we think there are barriers to new development, which helps rents grow over time. There's always going to be cyclicality, but what you want is... Because you're going to have recessions. You're going to have pandemics. You're going to have things that go on, but you want the highs each cycle and the lows each cycle to be going up, and we think they will in the cities where we operate. There are many parts of the country, particularly in the Southeast and the Southwest, that are growing faster than the gateway markets where we are. And they're great cities, and have a lot of the characteristics I described, but first of all, they're smaller.

If you think about the scale of our business and the amount of square footage that we own, that would be a pretty high percentage in some of those cities, and I don't think they have the same barriers to entry that exist. I think the levels of construction that are going on in many of those cities are much higher as a percentage of total than what goes on in our cities. And things change. There was a lot of articles that just came out over the weekend about the lack of affordability in Austin, Texas. This was the darling of the real estate world for the last couple of years, all these announcements about companies moving there. And now, all of a sudden, there's some data out showing that the city's actually not that affordable anymore. So things do change.

Matt Slepin:

It may not be the place that people wanted to go to escape the big city, especially Austin, because the character changes so quickly. Although it was interesting... There's another article in the Times last week, talked about kind of the top six cities or something to live in. And there were 10 variables, and Texas hit all of them, particularly Dallas. And so you see both things. Talk about my city of San Francisco, because it is so far behind, and there are some challenges in the city. You have two of the trophy buildings assets in the city in particular. But talk about how you see that coming back, and what the barriers are for it to mend itself, if that's the right word.

Owen Thomas:

Yeah. Matt, I said this on our last earnings call: San Francisco has been more impacted by the pandemic than any of the cities where we operate. I mean, before the pandemic, it was fantastic. The rents were growing more than... Somewhere between 5 and 7% a year, and capital values have probably doubled in the last seven or eight years. It was on a serious roll. And the pandemic has been very challenging for San Francisco, and I think a couple reasons for that. One is it's very technology-oriented. And the tech companies, as I said earlier, have been the least aggressive about returning to the office. So that's one of the reasons why the census is low. The other reason is that the city just decided to keep a lot of the restrictions about coming to the office and the occupancy limits.

And there's still a mask requirement. Even though the vaccination rate is way above the national average, and I think the infection rate, last time I checked, was way below the national average, there's still a mask mandate. And I get that. It's hard to ask employees to come back to the office, and then they run around the whole day wearing a mask or sitting together in a cube with a mask on. That's not a pleasant office experience. So when you have laws like that, that's not helping bringing people back to the office, so I think those two things are big drivers. But over the long-term, I'm confident San Francisco's going to return. And it's not just because it's San Francisco, it's the leading computer science knowledge cluster certainly in the US, and probably the world.

And I think fundamentally, that is... When I think about industries in the future that are going to outperform, it's going to be technology, and San Francisco is a very important hub. I mean, yes, some technology moved to Austin, absolutely. Seattle, a lot of these other cities, no question about it. But there's still a tremendous amount of it that's based there, and I think that's going to be the core of what ultimately lifts San Francisco out of this current malaise that it's in. The other thing I would point out: Areas around San Francisco are doing pretty well.

Matt Slepin:

I was going to say that, yeah.

Owen Thomas:

Silicon Valley has got some of the big tech companies taking multi-100,000 square foot new requirements. Google's entitling this major project around Diridon Station in San Jose. Oakland is doing pretty well in terms of office leasing and activity. Communities in the Bay Area, not necessarily the CBD of San Francisco, that are performing reasonably well through this pandemic.

Matt Slepin:

I think it's absolutely right. And that does suggest the region is strong. And it's interesting, though. When you vacate a downtown that was largely office, then both kind of homelessness can take over and retail can run away. And getting all of those under control as people come back to town, it's a vicious cycle until it becomes a virtuous cycle.

Owen Thomas:

Yeah. So co-working is going to be a part of the office business going forward. I think that it's probably not on the same trajectory that it was pre-COVID, but it is and will be an important part of the business. Today, I think around 3% of the office space in the country plus or minus is co-working. So it's not huge, but there are going to be players like WeWork and others that are emerging from the pandemic. And they've kind of restructured and refashioned themselves, and they're ready to continue to grow the business. I think it's effective in a couple of different areas, and I think one thing that the co-working industry did is it made landlords like ourselves more customer-friendly. And what do I mean by that? If you're a typical client and you want space, it's not easy to procure.

You generally work with a leasing broker, then you work with a landlord to find something. Then you have to build out the space, hire an architect. You've got a lot of capital costs in building out the space. You got a big long lease. You got to hire a lawyer to do a lease. Now, if you're a big company and you need quiet enjoyment of a space for a long period of time, it's absolutely worth doing all that stuff. But sometimes, if you're a small company, I mean, you don't even know whether you're going to be in business in a year, or whether you're going to double in size, or what's going to happen. Particularly if you're a startup, you don't want to go through all that. You just want space, and you probably want to pay for it by the seat as opposed to the square foot.

Again, put yourself, as the vendor, into your client's shoes. What are they really thinking about? They need office for people. They don't need square footage. So I think the co-working industry created a product that's just easier to procure. You come in, the space is available, you pay for it by the seat. You don't have to do a lease. It's just a short agreement. You don't need a broker. You don't need an architect. You don't need to do any of those things that I said earlier. You just take the space. So I think there's a market for that. And not only do we have WeWork and other co-working companies that lease space from us that operate those kinds of facilities, but we've done it ourselves.

We have a product called Flex by BXP, and we have half a dozen or so facilities. It's very Boston-concentrated, and that's the customer base that we've been tapping into primarily. I mean, pandemic's had an impact on that, because if you can give up your space and you're working virtually, you're going to do that. So the census in the co-working spaces is lower, I think, than overall because of that flexibility. The second customer that I do think co-working will continue to serve, and I know this from my work at Morgan Stanley... Big companies, they have changing space needs, and they always will want a headquarters facility. Or if they know they're committed to a certain region, they're going to want a lot of space in that region for the long-term. But on the margin, things change. New businesses get started.

They might want to go to a new city, and they don't know how quickly that's going to... What their space needs are. So there's a value in being able to get space quickly and flexibly for big companies. Is that 5% or 2% or 10%? I think it's a 10% or less kind of number. And I think, and I've heard this from heads of real estate at major corporations, many of them will say, "That's valuable, and I'll pay it premium for it." So I think that's another part of the customer base. But the issue going forward for co-working is who's going to finance it. Because if you're giving flexibility, then a lot of costs are now resting on either the co-working company, if this is their strategy to lease space, or on the landlords. And so then the question's going to be... And again, we're back to our more traditional role, which is capital allocator. How much capital are we going to allocate to that business? And right now I would tell you none, because we just need to refill what we have before we would consider building out any more co-working space.

Matt Slepin:

So now you are having lease terms which are, "Hey, we'll renew you for a period of time," but then also that kind of flexibility... Not just co-working itself, but, "Yeah, we'll let you in for a year, and it's already furnished," or whatever. Maybe that happens mostly in sublease space right now, or co-working, versus you guys.

Owen Thomas:

Yeah. No, look, I think I'm kind of giving you only the economic equation of how you make these decisions. I think the other thing you can think about when you think about co-working is if we own a big complex, like the Prudential Center, we've got four office buildings and millions of square feet. I could argue we should have a great co-working center in that project. One, hopefully it finances what I said earlier, but it's also a way to bring new clients into the Prudential. Because if you're a startup and you hadn't been in the Pru before, and you go there and all of a sudden you connect with the center, and you like using the Eataly and the other amenities that we have, and maybe one day you'll like to go up to the observation deck that we're building, and then you get big and successful, maybe then you'll graduate out of the co-working center and do a lease with us.

And so I think there's a value in that. And then the other way to think about the office business is a little bit like apartments. If you're building an apartment complex, you don't have all studios or all three bedrooms. You have a menu of sizes, and I think co-working is part of the menu. So we've got-

Matt Slepin:

Well said.

Owen Thomas:

... buildings, headquarters, buildings for very large users, and then we've got full floors for medium-size users. And then we have a spec suite business where we'll go take space and build out a suite. And we will want to do a five-plus-year lease on that, but that's a little bit different because you don't have to deal with building out the space and all that. And then you've got co-working, for the very flexible tenants looking for flexibility. So I do think it could be part of the menu of things you have to offer clients to get your space leased.

Matt Slepin:

I think you just described the future. Last question on this is... We've been talking about what you do, which is kind of trophy Class A stuff, but the vast majority of office space out there, talking for the industry at large as B and C, not just A, and not just in the gateway cities, any thoughts about what all of this rejuvenation might mean? Is there more obsolescence because of coming out of the pandemic? And what happens to B and C space in secondary markets? Any thoughts about that?

Owen Thomas:

Well, I think that's going to get... If there is some diminishment in office demand, given my points earlier about the migration to quality, I do think the lower-quality buildings that are poorly located are going to struggle more. I do. I think you'll see, as you always do, particularly in the urban areas where we operate, they'll be repurposed. The land is valuable. There's lots of people. Land value is created by density. So there'll be smart people, including us, who will probably figure out ways to repurpose these assets into other uses. I mean, office can be a challenge on residential because of the bay depths, but I think you'll see some repurposing and maybe some demolitions that occur, and buildings being rebuilt into something else.

Matt Slepin:

So let's totally change the subject, and I want to hear your story about how you got into real estate, and kind of the two careers I think that you've had. And so very quickly, where did you grow up? You went to UVA, and then you got in real estate in Harvard. So kind of talk us through this a little bit.

Owen Thomas:

So I grew up on a farm in the Shenandoah Valley of Virginia, near a town called Staunton. My friends, whenever I say I'm from Staunton, they're like, "No, you're not. You live on a farm near Staunton, and that's in Augusta County, halfway down the state." And my dad, in addition to overseeing our farm, he was in the real estate business. He did a lot of brokerage for the farming community because he was a farmer, and so he was a trusted person. So he did a lot of that. And then he had an office in Staunton, and also had a number of sales people working for him, and they did a lot of residential sales. And then we would also do some development, low-density development: buy a farm, break it up into lots, and things like that. So when I was a teenager, I worked in his office, and I really loved it.

And I got a real estate license in Virginia when I turned 18, which was the minimum age. And so again, very different from what I'm doing now, but that kind of set the table or planted the seed of an interest in real estate. But anyway, so I went off to Woodberry Forest School in Virginia. It's a all-boys boarding school in Orange. Graduated from there and then went to UVA, and it was in the engineering school, primarily because I was good at math and science and thought that was the right way to go. And then after I finished that, I thought if I did all this work to become a mechanical engineer, I ought to be one, although I always had a lot of interest in real estate and finance and banking, and things like that.

But I thought, "Look, if I did this work, I should try this career." So I went to Texas Instruments in Dallas, and I worked in their defense department, and I had a couple of different jobs. I worked on the Harpoon seeker assembly line, building tools for that. And then I worked on the team that developed the M1 Abrams tank thermal sight, believe it or not. But after, I just knew that wasn't my passion. And so I was fortunate and got accepted to Harvard Business School, and went after a couple years. And when I was there, a couple things happened. One, I took Bill Poorvu's real estate class, and I just basically... It kind of reignited my initial love and appreciation for real estate. So then I went to Morgan Stanley after Harvard, and I was in the real estate group from the outset.

And when I started there, we weren't in the principal business. The real estate-

Matt Slepin:

What year was this?

Owen Thomas:

... business was very different.

Matt Slepin:

What year was this?

Owen Thomas:

We didn't have one.

Matt Slepin:

Owen, what year was that?

Owen Thomas:

1987.

Matt Slepin:

Okay.

Owen Thomas:

So we were competing with Eastdil, and Goldman Sachs, and a lot of brokerage firms, frankly. Selling buildings was a lot of what we did. There was some M&A work that the group did, obviously being part of Morgan Stanley. The group was called Brooks, Harvey actually within a year of... I think the name changed one year before I joined. But then we had a... I learned a lot from this. In 1990, there was a terrible crash in real estate, and the revenues from our group were very small. And there was a downsizing, and it was a very challenging environment. Not much was going on. But what happened was it laid the seeds for incredible growth, because what happened was that Wall Street became a lot more important to the real estate industry as a result of that crisis.

Because the first thing that happened is a lot of companies that were having financial problems, they went public. The UPREIT structure was created, and there were many great companies, many of them are still in business today, went public during that period of time. And so the whole REIT industry, it wasn't formed then, but certainly the modern REIT industry-

Matt Slepin:

Modern REIT was formed in '94. Yeah, '93, '94.

Owen Thomas:

Right. And so Morgan Stanley, being a securities firm, was in the middle of all that. And then debt securitization started, and Morgan Stanley again became a big debt securitization shop. And then my bosses very astutely also said, "Look, this is a great time to invest in real estate," and they went out and raised the first real estate fund at Morgan Stanley in the early 1990s. So all of a sudden, we went from having very little business to now having all these new engines of growth, and the group grew tremendously. And I was there through I think 2005, and we had billions of dollars of revenue at the end of that. And it was just an exciting thing to be part of, because we were growing. We built a big international business as well, which was very exciting and fun to be involved in.

And when you have that kind of growth engine, you get a lot more responsibility as a younger person, and you have all kinds of opportunities that you can offer your team for their professional growth. And we had just a terrific team of people, and we had a great partnership. We worked together well, and I'm very proud, frankly. One of my biggest things I'm proud of of that group is just how well all these individuals have done in the industry. We have a annual get together around the holidays, and people come back, come from, frankly, all over the country. And many of my partners and colleagues at that time, they're all in leadership roles at different companies around the world, which is very inspiring.

Matt Slepin:

Well, you can name the companies, particularly in the principal side, between Westbrook, and Rockpoint, and BentallGreenOak. Talk about growing into leadership in that world and in that very competitive, hyper-competitive world of exceptional people. And you wound up running it, I think, so kind of talk about how that came about, and then lessons learned.

Owen Thomas:

Well, I started as a first-year associate, but I was probably like a VP when the 1990 crisis occurred. And then I ran the principal business first, and then later in my career, a couple people retired or moved on, and then I took over the entire group, both the principal side and the banking side. But Morgan Stanley was meritocracy so you had to... Basically, I think advancement was about being an expert in your space, working hard, being committed, being a good leader of people, being good with people generally, because we were always doing a lot of deals, and working with counterparties and clients was very important all the time. And then I think taking care of your team, being a strong leader of your people, paying attention to them was very important. Being trusted, honest, to me, is always critical. Whether you're a leader or not, it's just critical in business.

Matt Slepin:

Right. It's interesting. Just another second on this, because it helps prepare you for what you have been doing since then. But I am curious, because the caricature of Wall Street is kind of people with fangs, or something like this. Hyper-competitive, hyper-smart people with fangs. But at the same time, what you're describing, and I see this from others, is people who know how to collaborate, people who know how to mentor, people who know how to build a culture that people will trust. And so kind of contrast those two things that are in your body somewhere.

Owen Thomas:

Well, again, Wall Street, it's a hyper-competitive environment, but I think that's the negative part of it. The positive part of it is the talent that you get to work with. I mean, the people that we're able to recruit, the talent that they have, the intelligence that they have, the drive that they have, they were a joy to lead. Because working hard and trying to accomplish goals, that's what all of us were trying to do all the time, and so it was a huge plus in that regard. And I kind of go back to what I said earlier. Was it a competitive environment? Yes. But was it a fair environment? Yes, it was a meritocracy, and I think we always felt that we were treated reasonably fairly.

I mean, yes, were there times where people didn't like what they got paid, or they were disappointed that somebody else got promoted into this job? Absolutely. Those things go on in any company. But at the end of the day, it was a very capable group of people. And again, I always... Dick Fisher used to say this. Dick Fisher was one of my favorite and most admired leaders at Morgan Stanley. "We do first-class business in a first-class way." And I love that expression, and I always try to follow that, and I think that's what we tried to do.

Matt Slepin:

Cool. So let's move on kind of quickly that... You did two other things at Morgan Stanley. So you got out of real estate, and you broadened your experience. Talk about those stops before we get to Boston Properties.

Owen Thomas:

So in 2005, I was put in charge of the Morgan Stanley Investment Management, which is the asset management arm of the firm, and I did that from 2005 until 2008. And then in 2008, we had some leadership shifts in the firm, and I... This was the beginning of 2008. I moved to Hong Kong with my family, and I was the CEO of Morgan Stanley Asia. And I was there from 2008 till 2011, and I was on the management committee of the firm when I had those two jobs.

Matt Slepin:

And nice time to be away during the GFC. I don't know how Asia was.

Owen Thomas:

Yeah. Well, that was strange. I mean, I had no idea that the GFC was going to happen. And I remember being in my office in Hong Kong, and watching the Bear Stearns issue in June, and what the stock did, and it was unsettling to say the least. But you're right, I wasn't in the mix in New York with all of what was going on. One thing that did have an impact on me in Asia... Well, a couple things. One, Asia popped back quicker than the rest of the world. So in that sense, it was an exciting place to be. And then the second thing is one of the things that Morgan Stanley did to get through the financial crisis is Mitsubishi, MUFG, bought... I believe it was a 10% stake in the firm. And we became a lot closer to Mitsubishi. And Japan was part of my remit when I was in Asia, so I was involved with them quite a bit in working on a local securities joint venture, and also collaborating with Mitsubishi in the rest of Asia Pacific. And that was definitely an interesting thing to be involved in.

Matt Slepin:

Actually, they were lucky you were so close at that point in time. But it must have been otherworldly to have been in the center of the universe and then be watching the GFC happen from so far away.

Owen Thomas:

Yeah. No, it was. I mean, it was unsettling. I'll give you an example. I had a neighbor friend who worked at Lehman Brothers, not to segue to something else, and he lost his lease on his house because it was with the firm, and the firm went bankrupt. So we were a long way away, but definitely, the impacts of all this were felt.

Matt Slepin:

Yeah. Well, crazy stuff, and I'd like to drill down on it, but we don't have time, because I want to get to very briefly just mention Lehman. And then let's get to Boston Properties and how that came about, and how that's changed you.

Owen Thomas:

Yeah. Well, I left in 2011. Honestly, I retired, but I was too young to retire, so I was trying to figure out what I wanted to do. And I studied everything, academia, all kinds of things. I probably studied everything except playing golf. But in the middle of this, I had a friend who ran one of the hedge funds that it was a creditor to Lehman, who called me and said, "Owen, look, we'd love to have you get involved in this board that we're putting together. Because Lehman went bankrupt, and we're getting ready to have it emerge from bankruptcy, and we need a board to put together to help Lehman resolve the claims." There were two things that needed to be done.

One was monetize the assets that they had. But second of all, there was the still arguments over who actually had claims, who gets the money. So there are actually two big jobs with this. And they got, I think, a trillion dollars of claims at the outset, so it was significant. So anyway, seven of us were selected, and I was the first chairman of the board. And all of us... I thought the creditors' committee did a nice job of who they picked, not just because they picked me, but everybody had an area of expertise. Rob Gifford and I were real estate, and I guess I had a little bit of Asia and asset management, and then we had a derivatives expert, and we had a private equity expert, and a hedge fund expert, and a CFO, and then we had a bankruptcy expert.

And then the second thing is all these... These are great people, and we collaborated well. We still work on it together, and we're all great friends, and so I've loved that aspect of it as well as the personal side of it. And it was complicated. I think we're at 100 billion now, or plus, of distributions, and I think the claims have been settled. I mean, these numbers are going to be a little bit off, but it's somewhere around 350 billion of claims-

Matt Slepin:

And a lot of that was real estate. Real estate was the-

Owen Thomas:

Yeah. Well, real estate was the biggest sleeve. It wasn't all real estate. And then the big thing that we had in the real estate side was the Archstone asset. We owned half of that. And then when our board got involved, we bought the half that we didn't own, which is not a common occurrence for a formerly bankrupt company to make an investment of that size. And then we turned around and we filed to take it public. And then right before we took it public, two strategic buyers, AVB and EQR, came in and did a cash and stock deal. And then they divided up the assets, and they bought it from us. So it was a fascinating deal to be involved in, just all the moving pieces with that.

Matt Slepin:

Had to be. And I have a lot of friends at Archstone. You disappointed them by yanking it at the last minute in the other direction.

Owen Thomas:

Yeah. Well, our job was to maximize value for creditors, and that's what we thought was the way to do it.

Matt Slepin:

Yeah. So talk about coming to Boston Properties and how... We've talked so much about Boston Properties, so we don't have to dwell on it too much, but I'm curious about what different types of leadership you had to bring to this kind of role than you had before.

Owen Thomas:

Yeah. Well, so Boston Properties was founded and led by two very talented entrepreneurs, Ed Linde and Mort Zuckerman. And Ed tragically died, I believe, around 2010, and Mort became the... And he had been the CEO, and Mort became the chairman and the CEO. Back when I joined, he was probably around 75 years old, and he and the board agreed that it was time to find a successor. And so I was contacted and participated in a process, and they ultimately decided to hire me. So that's how it all transpired.

Matt Slepin:

Came out of retirement. Came out of the-

Owen Thomas:

Yeah, and Mort remained the chairman. He was executive chairman, I think, the first year, and he was non-exec chair for a couple years after that. So he stayed with us for a while, and I worked closely with him for my first several years when I was with the company.

Matt Slepin:

That must have been a privilege, actually, because-

Owen Thomas:

It was. It was one of the reasons I took the job. I mean, I knew Mort from my Morgan Stanley days. I always liked him, and I just thought he was a really interesting guy, given not only the real estate expertise that he had, but all the other things that he got involved in.

Matt Slepin:

Yeah, the Atlantic.

Owen Thomas:

That was part of my decision-making in coming here, was him. So just to say what's the same and what's different about BXP and Morgan Stanley. So what's different? What's different is BXP is narrower and deeper. So at Morgan Stanley, we were out doing business all over the world. In real estate, we were very transactional. We would buy and sell billions of dollars every year. We would get involved in all asset types, everything we would do, all these different countries. We'd do the opposite of what I described earlier. We would go to a place and say-

Matt Slepin:

Focus was not the word.

Owen Thomas:

... "This is an opportunity for two or three years. Let's dive on this, and then we'll sell, and we'll leave." And we could do that, because we were a fund. So now you come to Boston Properties. The scale of it's not totally dissimilar from a revenue standpoint and things like that, headcount, but it's very different in terms of breadth and depth. So now we're much narrower. We're focused on office. Yes, we have apartments and retail and parking and life science. And yes, there is some variability there, but it's primarily office. And then we do everything. As I've talked about many times in our discussion, we're fully integrated. We do all these things.

And we're not as transactional. I mean, this year, we made five acquisitions. That's the biggest year we've had in my eight-plus years here. So very different from that standpoint, and we're actually building buildings. Morgan Stanley might have funded that, but we weren't certainly doing it ourselves. So I think it's a narrower remit, but a deeper remit. So those are the differences. But in terms of leadership, I don't think there's much difference at all. I mean, I think the things that I needed to do to be successful at Morgan Stanley as a leader were really the same here. And that is to... And these sound maybe pretty simplistic, but they are. I mean, you need to surround yourself with great people. And one of the things that has led to our success at Boston Properties is everybody stayed: my partner, Doug Linde, Mike LaBelle, our CFO, all our regional heads.

We had one retirement in New York, but they all stayed, so we have a great team. You empower them. You treat them with respect. You make sure they get paid and they get properly rewarded for their contributions. That was the same at Morgan Stanley. As a leader, being honest, being trusted, telling people not what they want to hear, but what they need to hear. It's not always good news. Being honest about mistakes. "This didn't go so well. Why? How do we avoid making that same mistake again?" Things like that. As I always say, as I talked about earlier, I've been airdropped into a number of leadership situations, and there's always an assessment up front of how much change needs to occur to be successful.

But as I always say to my team here, when you start in a leadership job, you're appointed. But over time, to be successful, you need to be elected. Your team, your clients, your shareholders, your investors, whoever those constituents are, they need to elect you to that job over time. And election is not always is giving everybody what they want, it's doing the right things so you're respected. I mean, I think that's a very important mentality to have to be successful as a leader.

Matt Slepin:

I'm going to bet that the diversity of the experiences that you had, and the transactional nature of it, the twitchiness of Wall Street, and what you did at Morgan Stanley probably makes you a better leader in a more stable business, because you're able to not get stuck in the weeds as much as others might.

Owen Thomas:

Yeah. Yeah, that could be true, Matt. I will say I used to get, as I came up the ranks at Morgan Stanley, the constant criticism... Or I shouldn't say criticism. Development message that I would get was, "You're too in the weeds. You need to step back more." And I don't think I have that problem anymore.

Matt Slepin:

Probably not in this role.

Owen Thomas:

But I do think it is important as the CEO. Your team is executing the business. Somebody has got to step back and say, "Are we on the right path? What's our strategy? How's the world changing?" I'm not saying the rest of your team shouldn't be doing that too, but you definitely need to do that as the leader. You need to set strategy, and you need to get everybody bought into it, so your board, your management team, your shareholders, and that's a really important part of the job.

Matt Slepin:

Yeah. Well, that's your job. That's a job of a leader. So Owen, before we end the podcast, I want to hear a little bit more from you on climate, which I know has been one of your passions. And I want to talk about it both for the industry and for BXP. And maybe the place to start is the industry, because I think you just funded a big initiative at ULI, the Net Zero Imperative, I believe. So maybe talk about that, and then we'll talk about both the industry and how we move the needle, and about BXP.

Owen Thomas:

Yeah, great. No, Matt, happy to do that. On climate... Look, my views, this is a philanthropic priority for me and my family, because I think climate change is real. I think it's caused by human activity, and I think it's an existential risk for all of us. And I think we are just seeing the tip of the iceberg with storms and temperature, human migration, and this is all at the tip of the iceberg. It's just starting, and this is all going to get much, much worse. And it's a very challenging problem for all of us, because we tend to measure our progress on things in the shorter-term: the next month, next quarter, next year, maybe five years. But this problem, it's been brewing for decades, and it will probably take decades to solve it. And it's hard to see the near-term payback on a lot of these initiatives. And again, I don't think the human condition is set up as well for that, but we just have to acknowledge that it's a problem.

Matt Slepin:

Yeah, both the human condition and our political system and our societal systems don't know how to address that in the big way.

Owen Thomas:

So the way I'm trying to make an impact personally, a couple things. One, as you mentioned, I did give a significant gift to the ULI to found the Net Zero Imperative, which is part of ULI's already formidable activities on climate change and on sustainability. And the goal of the gift is to fund advisory panels for owners of property, cities, schools, hospital systems, anybody that touches the built environment to give them plans, to get their properties to net zero, and then to fund the learnings from all of those advisory panels to create reference materials for the industry broadly to use for everyone to get their properties into those conditions. As you know, real estate's a very fragmented industry. It's owned by a lot of people, some of which are not as well-funded, and some of which are not as sophisticated.

And so what this gift is intended to do is to try to democratize these principles and these plans so that property owners broadly can help solve the problem. The built environment is creating 40% of the emissions that are harming the planet, and about a third of that 40% is from Scope 3, which is construction and building materials. And about two-thirds of it is building operations. So that's really the purpose of that gift. And fortunately, already several other generous donors have already given gifts to this initiative as well, and we've more than doubled my gift. So we're well-funded, and hope maybe some of the listeners to this podcast will take advantage of the opportunity to get one of these panels and help them accomplish this net zero goal. And then the other thing I try to do in my role is be a major sponsor for sustainability and particularly net zero operations with Boston Properties.

We're a leader in this space. By the way, Newsweek magazine just came out with a poll a couple days ago and ranked us the number one most responsible property company in the country, and number 31 overall, so we're very proud of that. And we've announced a net zero target goal by 2025. We've already reduced our emissions from Scope 1 and 2 by 70% off of 2008 base year.

Matt Slepin:

What's Scope 1, and what's Scope 2?

Owen Thomas:

Well, Scope 1 and 2 are your building operations. So it is both the on-site fossil fuel combustion that you're doing on-site in your boilers and things like that plus the power that's used by the clients in your buildings. So think about property operations. And then Scope 3 is the embodied carbon in the materials that you use when you actually construct buildings or do tenant work, and that's a very big part of the problem. It's a third of all the emissions from the built environment. And it's also a very challenging one to solve, because there's not a deep supply chain for green concrete and green steel. The fabrication of both of them requires a lot of power, and a lot of it's done with fossil fuels.

So I do think there's a lot of property companies like Boston Properties that are doing the right things in this area, and I think more and more property companies will, but we can't get to net zero without help from our supply chains. And the two most important supply chains are the power industry. There's still much too large a percentage of power that's brown, that comes from coal and natural gas combustion. So that's one, and then the second is what I mentioned a minute ago, which is the material supply chain, particularly steel and concrete.

Matt Slepin:

And as you look at your business, are you able to... Is the net zero every building, or is the net zero across the portfolio? And how do you up the grade on the hardest-to-fix buildings in that way?

Owen Thomas:

Yeah, it's across the whole portfolio. We improve by a couple things. One, of that 70%, I would say roughly half of it, maybe a little less than half, is by having a more modern portfolio. So we sell each year older buildings, and we're always building new buildings, so that helps. And then our older buildings, we're always upgrading the equipment. And when we do so, we're now eliminating fossil fuels, and we're also... New equipment is more efficient. So we got about 30 to 35% reduction in emissions just through efficiency, but all the rest of it's got to come from power. So that's what I keep coming back to, is we don't control that. We have to enter into more complicated power purchase agreements to acquire green power, and our power providers need to have more green sources of power. And they just don't right now, and it's changing too slowly in my opinion.

Matt Slepin:

Yeah. And we talk about this all the time on Leading Voices, because one of the things I do believe in... If Leading Voices is geared a lot to young people getting in the industry, I believe that young people getting in industry today, a large part of their future careers will be decarbonizing our industry. But they're not going to just decarbonize new buildings like you're talking about, but they're going to be decarbonizing obsolete buildings or getting rid of them, which is carbon negative too. So to do it for the overall industry, which is what you or I will look at, is really, really painful.

Owen Thomas:

Yeah. Well, there's a couple things to respond to what you said. I agree with you. I think that that is a real value in older properties today, because if you repurpose something, by definition, your Scope 3 emissions are going to be much lower than building a brand new building. And I think that's going to become a much more significant part of the calculus when thinking about new development. We just had a client that had a pretty major requirement in one of our regions. And they had a rough idea where they wanted to be, but the most important thing to them is that it was a absolute zero fulfillment. So we found an existing building, we electrified all the equipment, we increased the insulation, we put solar all over the rooftops, and we made the property... Their fulfillment will be net zero, and the embodied carbon will be 30% of what it would be versus a new bill.

And that was the most important criteria for this particular client, and I think we're going to see more of that. I mean, I think, Matt, a lot of this too... When we as a company want to be a leader in sustainability, I think it's the right thing to do, but I also think it's the smart thing to do, because we're now serving our clients more effectively, and more and more of our clients are interested in this. We have more shareholders that are sustainability-oriented. I've spoken this year... I've attended two or three ESG conferences. I met with shareholders that were primarily interested in the ESG characteristics of our company, as opposed to other factors.

We issued, earlier this year, 850 million in green bonds. That money is used to build properties that are LEED Gold or better. And with the rate, we think that we... 65% of the investors that came into that deal were green bond investors, and we think the rate might have been 5 to 10 basis points better than we would've gotten for a non-green issue. That's a lot of money.

Matt Slepin:

Does that have to pay for itself?

Owen Thomas:

That is a significant savings. I mentioned clients, and then our employees. They, as I do, enjoy working on this. They enjoy the impact aspect of it, and I think being a leader in sustainability makes us a more purposeful organization, which is of great benefit to our employees.

Matt Slepin:

Yeah. Well, as you talk to other CEOs and have the CEOs who are behind the times on this understand their self-interest in this, as well as their heart interest in it, that really goes a long way.

Owen Thomas:

Yeah. No, it does. I mean, some of it you can't quantify in terms of payback. Some of it you can, some of it you can't, but we definitely see the clear benefits. And those three constituencies that I've mentioned, and also I would say our communities... Our footprint's all in coastal cities, and our cities care deeply about this topic. Many of them are putting in regulations, and being knowledgeable in this area helps with in our community relationships as well.

Matt Slepin:

And one of the challenges in all of this is the feeling of drop in the bucket. So you made a big contribution to ULI to do this, and I'll laugh in a funny way. It's a huge contribution, but it feels like a drop in the bucket. So to believe that any dollars going towards that type of effort will make a difference is really hard. And so how do you know that those dollars will leverage towards change? Because change will leverage multiple times.

Owen Thomas:

Yeah. Well, no one person or one organization is going to solve the climate change problem. I think the attitude that all of us have to have is we all have to participate in some way. We have to change our behaviors. We have to do something: turn the lights off, buy green power, change our behaviors in some way to make our activities more sustainable to help this problem. So I think that's the way you have to think about it. It's the ultimate challenge for all of us as individuals to solve.

Matt Slepin:

For our time. I appreciate that. Okay, the last question always on Leading Voices is advice for a young person getting into the real estate business.

Owen Thomas:

Yeah. Well, I think the first thing I would say is just make sure that you've got that spark that I talked about in my own life, which is a love of the built and natural environment. I mean, I just have kind of a natural... When I walk around the city, I'm always looking at buildings and looking at this corner. Why is that store there? What could be better about this location? I'm a runner, so I'll go out. I love going to a new city and going for a run, because then you can figure out where everything is and how it all works. I love maps. And not just the built environment, I love being outdoors and all those things. So I think you've got to have kind of a fundamental interest in all that.

Because I think at the end of the day, to be successful, work can't be work. You've got to enjoy it, and I think you need to make sure you have that spark. Now, assuming you have that, I think it's... Again, I'm going to give you some very simple things here, but I think it is simple. One, you got to work hard. There's no such thing as a free lunch. Hard work will be rewarded. Work in a place that's a meritocracy, where there is leadership that cares about you as a person, or you're not just filling a seat or doing some task. And make sure you're working with people that care about you, care about your professional development, bring you into things, all that. Work with integrity always. Be honest, even when things don't go well. Everyone will respect that. Honesty is the key. At first in your career, it's all about what you know, and you're doing a lot of analytical work and things like that, but as you get more senior, it's really the interpersonal side. And being a trusted person is really difficult to accomplish, but once you're there, it's really important.

Matt Slepin:

It's interesting. Be trusted. And it's in all of... You said it's a long game, so that if you behave bad along the way, you'll never get to where you might want to go. You just can't do it.

Owen Thomas:

Particularly in real estate where you've got all these private transactions going on, you need to be thought of as somebody that can absolutely be trusted, that will always do the right thing no matter what the papers say. I think that's really important. I also think, Matt, the other thing you could think about too as a person coming into the business... And my partner here in New York, John Powers, gave me this, so I'll give him credit for it. There really are three bodies of knowledge in real estate. One is the buildings and the systems. So how do leases work? How do buildings work? How does entitlement work, construction? All the terminology and how things work in the real estate world. Then the second is:

How's it financed? That's really important. Who are the investors? Debt, equity. How are buildings bought and sold? All that.

As I mentioned earlier, it's a capital-intensive business, and to really be a real estate expert, you've got to know finance. And then the third is people. So you got to have a relationship network externally, and you have to, as you get more senior, be a good leader of others, of teams or of a business unit. And think about leadership, and have good interpersonal skills and network. I think those three areas... Again, you're not going to get it all overnight, and I'm sure every job position has some trade-offs on which of those things you will learn, but I think you need all three to ultimately be successful. Anyway, I really enjoyed the interview, and I thank you for all the thoughtfulness that you put into this, so appreciate it very much.

Matt Slepin:

Thank you. This was wonderful.

Owen Thomas:

Take care. Yeah, bye bye.

Matt Slepin:

Take care. Thank you for listening into Leading Voices, and I hope that you enjoyed today's episode. I have a request. If you enjoyed the episode and found it to be valuable, please share it with a friend or two. If they're podcast-wary, take their smartphone in your hand and subscribe for them, and teach them to listen. You'll change their life. Seriously, thanks for listening, and keep in touch. You know you can reach me at matt@terrasearchpartners.com. See you next time.