

ALEXANDRIA REAL ESTATE EQUITIES INC
Form DEFA14A
May 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed

by
the

Registrant

Filed by a

Party other
than the

Registrant

Check the appropriate
box:

- Preliminary Proxy
Statement
Confidential, for
Use of the
- Commission Only
(as permitted by
Rule 14a-6(e)(2))
- Definitive Proxy
Statement
Definitive
- Additional
Materials
Soliciting
- Material under
§240.14a-12

Alexandria Real Estate Equities, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form DEFA14A

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Commencing May 2, 2016, Alexandria Real Estate Equities, Inc. sent the following communication to certain stockholders.

ALEXANDRIA REAL ESTATE EQUITIES, INC.
 Annual Meeting of Stockholders
 May 12, 2016
 Supplemental Information Regarding Proposal Three
 (Advisory Vote on Executive Compensation)

Dear Stockholders:

We are writing to you today to underscore the importance of your independent analysis regarding the agenda items submitted for your vote at our 2016 Annual Meeting of Stockholders. Our Board continues to unanimously recommend you cast your vote FOR all proposals, and would like to draw your attention specifically to Proposal 3, the advisory vote to approve our executive compensation (the “Say-on-Pay Proposal”).

Institutional Shareholder Services (“ISS”) has recommended that its clients vote FOR the election of all directors and all other proposals, including the Say-on-Pay Proposal, partially in recognition of our outstanding multi-year performance. Glass Lewis & Co. (“Glass Lewis”) has recommended voting against our Say-on-Pay Proposal for reasons that we refute in detail below. While we recognize that our stockholders make their voting decisions independently, and often pursuant to internal guidelines, we also understand that the advisory reports are utilized as research tools by many of our stockholders. In this regard, we believe it is imperative that such reports contain accurate information.

After the significant changes made to our compensation program, coupled with outstanding TSR and growth in FFO and NAV per share in 2015 and in the three years ending on December 31, 2015, a negative recommendation from Glass Lewis defies credulity and ignores the Compensation Committee’s work in designing an appropriate compensation program to align compensation with multi-year performance. As described in our 2016 proxy statement, the fundamental principle that drives the pay decisions of our independent Compensation Committee is to reward performance. The Compensation Committee believes that each named executive officer’s total annual compensation should vary with the performance of the Company for the year in question, and acts accordingly.

As disclosed in our 2016 proxy statement, our primary strategic goal in 2015 was continuing a multi-year strategy to deliver significant growth in FFO and NAV per share, which resulted in TSR outperformance of our peer group and various indices, including the FTSE NAREIT Equity Office Index, the SNL US REIT Office Index, the S&P 500 Equity Index and the Russell 2000 Index.

1 Year Ended	2 Years	3 Years	5/28/97 (IPO)
	Ended	Ended	through
12/31/15	12/31/15	12/31/15	12/31/15

TSR

ARE	5.3%	ARE	52.4%	S&P	52.6%	ARE	844.1%
Peers	4.3%	Peers	37.9%	ARE	45.5%	Peers	623.5%
S&P	1.4%	SNL	27.2%	Russell	39.2%	FTSE	389.6%
SNL	0.9%	FTSE	26.2%	Peers	38.0%	SNL	350.7%
FTSE	0.3%	S&P	15.3%	SNL	35.5%	Russell	284.7%
Russell	(4.4)%	Russell	0.3%	FTSE	33.3%	S&P	239.5%

High ARE Percentile Ranking ⁽¹⁾

FTSE	76%	FTSE	100%	FTSE	78%	FTSE	88%
SNL	75%	SNL	95%	SNL	68%	SNL	90%
Peers	63%	Peers	88%	Peers	63%	Peers	63%

(1) Represents the percentile ranking of ARE's TSR performance among the companies included in the FTSE NAREIT Equity Office and SNL US REIT Office Indices and our peer group.

ARE: Alexandria Real Estate Equities, Inc.	Russell: Russell 2000 Index
FTSE: FTSE NAREIT Equity Office Index	SNL: SNL US REIT Office Index
Peers: Our Peer Group	S&P: S&P 500 Index

Source: SNL Financial LC, Charlottesville, VA | ©2016 | www.snl.com

As shown in the following chart, our executive compensation is well aligned with our performance and specifically aligned with our growth over the three-year period ending December 31, 2015 in the key metrics that are important to us and investors in the real estate investment trust (“REIT”) industry. Our pay and performance are aligned relative to the pay and performance of our peer group and the Equilar/Glass Lewis peer group, which is flawed for the reasons described below.

Description	Compensation Well Aligned With Multi-Year Performance in Key Metrics Important to ARE and REIT Investors Growth Over Three-Year Period Ended December 31, 2015				
	TSR	FFOPS Growth	NAVPS Growth	2015 Average NEO Compensation (1)	
ARE performance achieved	46%	20%	60%		
ARE percentile ranking within: Equilar/Glass Lewis peer group	60%	80%	93%	73%	
ARE peer group	63%	71% ⁽²⁾	88%	75%	

(1) Based upon most recent publicly available NEO compensation from filed proxy statements. In addition, assumes that compensation within 5% is consistent with ARE compensation.

(2) Biomed Realty Trust, Inc. was acquired by a private company in January 2016 and did not report their FFO per share results for the year ended December 31, 2015. Therefore, Biomed Realty Trust, Inc. was excluded from the percentile ranking for FFOPS growth. TSR and NAV per share information was available for Biomed Realty Trust, Inc. for the three-year period ended December 31, 2015.

We believe the Glass Lewis suggestion that there is a “disconnect” between our pay and performance is based in large part on its one-size-fits-all model that relies on certain metrics that are not relevant to the REIT industry. For example, the Glass Lewis model considers relative earnings per share, a metric that was not used in the Glass Lewis analysis for our 2015 annual meeting and a metric that is not relevant to the REIT industry because it includes the impact of depreciation expense, which results in differences from company to company depending on the timing of investment and disposition decisions and variation in useful lives. As a result, REIT investors have for many years focused on growth in FFO per share and NAV per share when evaluating the performance of a REIT.

In addition, we call your attention to the following errors, omissions, and misconceptions in the Glass Lewis report:

Glass Lewis Commentary

“Shareholders should be concerned that the Company provides immediate vesting of certain equity awards upon a change in control of the Company. . . . However, we acknowledge that the Company does not intend to include such provisions in future agreements.”

Facts

This is the exact same statement that was in Glass Lewis’ report for our 2015 Annual

Meeting of Stockholders (“2015 annual meeting”). However, since our 2015 annual meeting, we amended the employment agreement of each of our four NEOs other than our CEO (our CEO’s employment agreement was amended before our 2015 annual meeting) to change from single trigger to double trigger in all future equity awards granted to them. Thus, Glass Lewis’ year-old comment is no longer correct.

Glass Lewis Commentary

“The Company has failed to provide a clear description of threshold, target and maximum goals under the LTI plan. We believe clearly defined performance targets are essential for shareholders to fully understand and evaluate the Company’s procedures for quantifying the performance into payouts for its executives.”

Facts

Disclosure of Performance Goals

In our prior engagement with Glass Lewis, we were told that Glass Lewis recognized that disclosing long-term goals may be commercially sensitive but that Glass Lewis relies on a company to disclose that rationale for any such exclusions in the proxy statement. We responded to that feedback this year by specifically stating that it would be competitively harmful to disclose the FFO per share goals during the performance period and disclosing our commitment since implementation of this program to disclose the specific FFO per share goals at the end of the three-year performance period.

Disclosure of
Rigor of
Performance
Goals

We understand that the reason stockholders are interested in the specific goals is so they can assess the rigor of the goals. To address that concern, we again disclosed that the Compensation Committee established the target goals based upon the level of FFO per share growth that would have been approximately or greater than the 75th percentile of companies in the FTSE NAREIT Equity Office Index in six out of nine consecutive historical three-year periods. We made this disclosure, which is well beyond typical best practice disclosure, in an effort to provide additional information and transparency so that stockholders can

assess rigor
without our
risking
competitive
harm.

We have also
clearly and fully
disclosed the
threshold, target
and maximum
TSR goals in a
table on page 53
of our 2016
proxy statement
given that there
are no
competitive
harm concerns
with disclosing
TSR goals
during the
performance
period.

Forfeiture of
Performance
Awards
Demonstrates
Rigor
To further allow
stockholders to
assess the
Compensation
Committee's
commitment to
setting rigorous
goals, we have
disclosed the
vesting/forfeiture
related to the
2013 long-term
incentive award
granted to Mr.
Marcus. As
shown in the
"Forfeiture of
Portion of 2013
Marcus Grant"
table on page 54
of our 2016

proxy statement, 50% of the performance-based portion of his award was forfeited as a result of TSR performance below the threshold levels necessary to vest. Further, the portion of his award that was dependent on our absolute TSR in 2015 did not vest even though our TSR in 2015 of 5.3% was higher than the TSR of our peer group and various indices, including the FTSE NAREIT Equity Office Index, the SNL US REIT Office Index, the S&P 500 Equity Index and the Russell 2000 Index. This clearly demonstrates rigor.

Glass Lewis Commentary

“Shareholders need to be satisfied that the peer group is appropriate and not cherry-picked for the purposes of justifying or inflating pay. In general, we believe a peer group should range from 0.5 to 2 times the market capitalization of the Company. In this case, Glass Lewis has identified 3 peers with more than twice the Company’s revenue, which represents approximately 37.5% of the peer group.”

Facts

The Compensation Committee gathers and reviews information about the compensation programs and processes of the companies in our peer group as an informal “market check” of compensation practices, salary levels, and target incentive levels. In reviewing this information, the Compensation Committee considers whether its compensation decisions are consistent with market practices. The Compensation Committee evaluates compensation primarily on the corporate objectives discussed in our 2016 proxy statement with a comparison to peers being just one of the factors considered.

In selecting our peer group, the Compensation Committee took great care, with its independent advisors, in designing an appropriate peer group of companies with which we compete in our complex real estate niche. The Compensation Committee focused first on our direct competitors, which are the REITs that own office/laboratory properties. Because we only have four direct competitors in our niche, the Compensation Committee next added REITs with which we compete for talent, acquisitions, and tenants, and whose total assets, total revenues, and equity

capitalizations are no greater than 2.5 times ours. Our current peer group consists of the following companies:

Peer Companies That Own Office/Laboratory Properties (Direct Competitors)	Peer Companies with Which We Compete for Talent, Acquisitions and/or Tenants and within Range from 0.5x to 2.5x of our Total Assets, Revenues, and Equity Capitalization (Indirect Competitors)
BioMed Realty Trust, Inc. — A REIT that owns, develops and leases office and laboratory space for lease to life science tenants, including biotechnology and pharmaceutical companies, scientific research	Digital Realty Trust, Inc. — A REIT, located in San Francisco, that owns, acquires and develops technology-related real estate in major metropolitan markets, including several of our top markets.

institutions,
government
agencies
and
other
life
science
entities.

BioMed
Realty
Trust
competes
directly
with
the
Company
for
talent,
real
estate
and
tenants.

Boston
Properties,
Inc.
— A
REIT
that
owns
and
develops
first-class
office
properties
with
significant
presence
in
our
top
three
core
markets
(Boston,
New
York
and
San
Francisco)
with
significant

Douglas
Emmett, Inc. —
A REIT,
located in Los
Angeles, that
provides
Class A
office
properties in
Southern
California
and also
competes
directly with
the Company
for talent.

life
science
facilities.
Top
20
tenants
include
Biogen
and
Genentech
(subsidiary
of
Roche),
both
which
are
also
tenants
of
ARE.
Boston
Properties,
Inc.
also
competes
directly
with
the
Company
for
talent,
real
estate
and
tenants.
HCP,
Inc.
— A
REIT
serving
the
healthcare
industry
and
owning
almost
eight
million
rentable
square
feet

Highwoods
Properties,
Inc. — A REIT
based in
Raleigh,
North
Carolina that
owns office,
industrial,
and retail
properties in
the
southeastern
and
midwestern
United States.

of
laboratory/life
science
properties
similar
to
properties
owned
by
ARE.
HCP,
Inc.

also
competes
directly
with
the
Company
for
talent,
real
estate
and
tenants.

Kilroy
Realty
Corporation
— A
REIT
active
in
premier
office
submarkets
with
significant
presence
in
three
of
our
top
submarkets
(San
Francisco,
Seattle,
and
San
Diego)
with
significant

SL Green
Realty Corp. —
A REIT,
located in
Manhattan/NYC,
that acquires,
owns and
manages
premier office
properties in
Manhattan/NYC,
one of our top
submarkets.

life
science
facilities.
Top
15
tenants
include
Institute
for
Systems
Biology
and
Neurocrine
Biosciences
Inc.,
two
life
science
entities.
Kilroy
Corporation
also
competes
directly
with
the
Company
for
talent,
real
estate
and
tenants.

Glass Lewis Commentary

Facts

All but one of the companies in our 2015 peer group are also in the Equilar/Glass Lewis peer group and each of the companies in our peer group that are also in the Equilar/Glass Lewis peer list are the strongest matches using the Equilar methodology described below. Five of the companies in the Equilar/Glass Lewis peer group are below the bottom end of the market capitalization and/or revenue range (0.5x) proposed by Glass Lewis and only two indirect competitors in the Equilar/Glass Lewis peer group are above the top end of the proposed range (2x).

Despite the Glass Lewis pronouncement that “a peer group should range from 0.5 to 2 times the market capitalization of the Company”, Glass Lewis uses the Equilar market peers to formulate say-on-pay recommendations for investors. The Equilar market peers methodology does not use market capitalization or revenue parameters and instead uses analytics and algorithms “proven in the social networking space” to generate an “interconnected network of peer companies consisting of ‘who you know’ and ‘who knows you’.” Equilar explains the benefit of this methodology as

“[I]logically determining peer groups by incorporating the collective knowledge of corporate disclosure instead of using arbitrary industry classifications or financial metrics” (emphasis added).

Unbalanced Equilar/Glass Lewis Peer Group

Using the Glass Lewis Preferred Range of 0.5x to 2.0x of revenue and market cap ⁽¹⁾

Greater than 2.0x of ARE revenues and market capitalization, and not a direct competitor of ARE

Equity Residential Ventas, Inc. Two larger companies

ARE Direct Competitor ⁽²⁾ Boston Properties, Inc. Owns office/laboratory properties
Kilroy Realty Corporation

ARE Indirect Competitor ⁽²⁾ Douglas Emmett, Inc. Companies with which we

Within 0.5x to 2.0x of ARE revenues and market capitalization, or a direct competitor of ARE

“Shareholders need to be satisfied that the peer group is appropriate and not cherry-picked for the purposes of justifying or inflating pay. In general, we believe a peer group should range from 0.5 to 2 times the market capitalization of the Company. In this case, Glass Lewis has identified 3 peers with more than twice the Company’s revenue, which represents approximately 37.5% of the peer group.”
(continued)

Digital Realty Trust, Inc.
 Highwoods Properties, Inc.
 SL Green Realty Corp.

compete for talent, acquisitions, and/or tenants

Other Equity Commonwealth Liberty Property Trust

Brandywine Realty Trust
 Piedmont Office Realty Trust, Inc.
 Mack-Cali Realty Corporation
 Corporate Office Properties Trust
 PS Business Parks, Inc.

Less than 0.5x of ARE revenues and market capitalization, and not a direct competitor of ARE

Five smaller companies

- (1) Market capitalization as disclosed by Glass Lewis represents equity capitalization.
- (2) Included in ARE Peer Group

For the reasons set forth above, and in further detail in our 2016 proxy statement, we request that our stockholders reject the recommendations contained in the Glass Lewis report and vote FOR Proposal 3, the approval of the compensation of our named executive officers.

Sincerely,
Steven R. Hash
Chairman of the Compensation Committee