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FTI Consulting Study Finds REIT Executive Compensation Increased 6% in 2018

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Increase Comes Despite Negative TSR in 2018

Performance Goals Cited as One of the Main Say-on-Pay Pressure Points

WASHINGTON, Aug. 20, 2019 (GLOBE NEWSWIRE) -- According to FTI Consulting, Inc. (NYSE: FCN), 2018 REIT executive pay increased 6% over 2017 levels, with CEOs of diversified REITs receiving the highest median increase of 20%. But according to the *FTI Consulting 2018-2019 REIT Executive Compensation Trends study*, which focuses on the 2018 pay practices at publicly traded REITs, a significant number of REIT CEOs saw their compensation decrease last year, with 33% of the 146 incumbent REIT CEOs receiving a pay reduction.

Conducted by the Real Estate Solutions industry practice at FTI Consulting, the annual study details year-over-year compensation changes and provides insight into recent REIT compensation market and corporate governance trends.

According to Managing Director Katie Gaynor of the Executive Compensation & Corporate Governance practice within FTI Consulting's Real Estate Solutions industry practice, "Increased shareholder scrutiny on goal setting has resulted in more challenging hurdles. The rigorous goals in many REIT incentive-based compensation programs should result in more variation, both on the upside and downside, in pay year-to-year."

"However, our study also revealed that REIT executive pay increased despite negative Total Shareholder Returns ('TSR') in 2018, a signal that 'reportable pay' was more correlated to annual earnings and operational performance and less on one-year TSR," Ms. Gaynor added.

Highlighting this trend, the median cash bonus payout as a percent of target was 121% of target in 2018 versus 123% in 2017. Less than 6% of REITs used TSR as a cash bonus metric in 2018, compared to more than 20% of REITs in 2014, as REITs continue to link annual payouts to REIT fundamentals and not to short-term swings in stock prices.

However, rigor of performance goals continues to be one of the main say-on-pay pressure points, with proxy advisory firm ISS citing this as an area of concern at 68% of self-managed REITs that received an 'Against' voting recommendation. Other key areas of concern from ISS include outsized equity awards, overly discretionary incentive plans and problematic severance-related provisions.

Larry Portal, a Senior Managing Director in the Executive Compensation & Corporate Governance practice, noted, "A pay-for-performance misalignment under the ISS model continues to be the main precursor to negative voting recommendations. Worth noting, 89% of self-managed REITs that received an 'Against' vote were cited for pay-for-performance misalignment, while two REITs with a 'Low' concern triggered negative recommendations based on severance provisions."

The *FTI Consulting2018-2019 REIT Executive Compensation Trends* study offered these additional key findings regarding executive compensation in 2018:

- The pay mix that comprises REIT executive compensation has remained consistent in recent years with LTIs (long-term incentives) comprising the largest portion, followed by cash bonuses.
- The use of 100% formulaic plans continues to decrease as REIT boards look to balance quantitative metrics with other operational and strategic priorities that may not be quantifiable, such as the execution of the strategic plan and the achievement of the individual performance goals. In 2018, 60% (versus 58% in 2017) of annual cash incentive plans were formulaic with a subjective component, while only 17% (compared to 20% in 2017) of these plans were entirely formulaic.
- Based on CEOs' annual cash incentive plans, most REITs used between three and five bonus metrics, as companies aimed to balance motivating excessive risk-taking by using too few metrics and focusing management on critical business objectives.
- The majority (77%) of REITs that granted performance equity used relative TSR as a metric. However, non-TSR metrics grew more prevalent in 2018, with approximately 43% of REITs using at least one financial/operational metric in their LTI program (up from 37% in 2017). Industrial, office and mortgage REITs were significant users of non-TSR metrics.
- In 2019, 19 self-managed REITs received "Against" say-on-pay voting recommendations, up from 15 in 2018, but only two REITs failed say-on-pay, down from three in 2018, in spite of increased pressure from ISS.
- The median CEO pay ratio for all REITs was 57:1 in 2018, as compared to 55:1 in 2017. However, REIT industry CEO pay ratio continued to vary greatly by sector last year, with 3:1 for the office sector and 477:1 for the retail sector.

REIT Board Compensation Increased in 2018

According to the 2018-2019 study, 39% of REITs increased board compensation in 2018, similar to the percentage increase from the previous year. However, the median increase was 10%, down from 13% in the previous year. The pay mix continued to be 39% cash and 61% equity, at the median. Equity was almost always delivered in full-value shares awarded under a fixed-dollar value formula, with immediate and one-year vesting periods being the most prevalent.

"We expect that ISS will begin to issue adverse voting recommendations for 'excessive' non-employee director pay beginning in the 2020 proxy season. At the same time, we expect board compensation disclosure to look more like a simplified version of executive compensation reporting in response to growing board compensation scrutiny," said Ms. Gaynor.

2019-2020 REIT Compensation Outlook

"The pressure faced by REIT boards will continue to increase as institutional investors find their own voice and no longer only rely on the voting recommendations of proxy advisors," explained Mr. Portal. "It has never been more critical for compensation committees to invest the time and resources to thoroughly review each element of compensation and the program in totality to ensure that the views of all stakeholders have been appropriately considered and that this process is effectively communicated to investors."

Ms. Gaynor added: "All of this comes at a time of significant disruption in many REIT sectors, plus a highly competitive environment for talent at all levels of the organization. For the compensation program to be effective in the face of so many competing priorities, many REITs will need to implement more innovative compensation solutions to achieve desired results."

About the *2018-2019REIT Executive Compensation Trends* Study
In July 2019, FTI Consulting reviewed and analyzed compensation-related disclosure in the 2019 proxy statements for 165 publicly traded REITs, excluding both micro-cap REITs and externally managed companies whose compensation programs are not directly comparable to the broader REIT market. FTI Consulting generally uses the median (as opposed to the average) as the preferred statistical measure for evaluating compensation data trends. The study has been adjusted to include select hotel companies that have not elected to qualify for REIT status for tax purposes but whose operations are comparable to other hotel REITs.

About the FTI Consulting Real Estate Solutions Industry Practice
FTI Consulting Real Estate Solutions professionals have the industry expertise and experience to help real estate owners, users, investors and lenders better navigate the market's complexities and manage its inherent risks. As unbiased and independent advisors, FTI Consulting represents leading public and private real estate entities and stakeholders, including REITs, financial institutions, investment banks, opportunity funds, insurance companies, hedge funds, pension advisors and owners/developers, offering real estate consulting services that help align strategy with business goals. The Executive Compensation & Corporate Governance practice at FTI Consulting has served as the trusted advisor to over 100 public and private real estate companies.

About FTI Consulting
FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. With more than 4,700 employees located in 28 countries, FTI Consulting professionals work closely with clients to anticipate, illuminate and overcome complex business challenges and make the most of opportunities. The Company generated $2.03 billion in revenues during fiscal year 2018. For more information, visit www.fticonsulting.com and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.

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