FTI Consulting Study Finds REIT Compensation Increases Nine Percent With Returns Up 30 Percent in 2014 as More Shareholders Vote in Support of Say-on-Pay Proposals

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WASHINGTON, Sept. 16, 2015 (GLOBE NEWSWIRE) -- FTI Consulting, Inc. (NYSE:FCN), the global business advisory firm dedicated to helping organizations protect and enhance their enterprise value, today announced the findings from the firm's *2015 REIT Executive Compensation* study, which focused on the pay practices at the largest 125 REITs.

Conducted by the Real Estate and Infrastructure practice of FTI Consulting, the study found that total compensation levels for REIT executives increased by almost nine percent in 2014, which was above the 2013 increase range of three percent to eight percent and reflected that industry returns were up meaningfully year-over-year. The study also found that board compensation increased by only two percent in 2014 compared to 2013 levels, with less than half of REITs providing 2014 board adjustments. Nonetheless, over the past three years board compensation is up by 23 percent, indicating that companies generally increase board compensation periodically by large amounts.

According to the firm's *2015 REIT Executive Compensation* study, the utilization of performance-based equity soared in 2014, with 85 percent of REITs granting such awards last year (a 15 percent jump from 2013) and makes performance-based equity almost as heavily utilized as time-based stock awards for the first time. The use of performance-based equity reflects the preference of investors and ISS and could have helped to drive the positive Say-on-Pay voting results in the REIT industry, which saw four fewer failed REITs and an overall rise in support to 92.4 percent.

"Over 85 percent of REITs grant performance-based equity, which in large part is driven by the fact that both ISS and investors have a stated preference for such awards and generally want them to comprise at least 50 percent of stock-based compensation," said Larry Portal, Senior Managing Director in the Real Estate & Infrastructure practice at FTI Consulting and Head of the Executive Compensation team. "Ever since the majority of REITs have begun allocating a substantial portion of compensation to performance-based equity, we have not seen the large year-over-year adjustments in the stock award values as years past, which is evident by the fact that industry TSR was up 30 percent but the stock values only increased by nine percent. Instead, compensation plans are now designed so that the value actually realized or earned will reflect the TSR performance of the company. Many times the value ultimately earned under these plans is significantly more than the grant date value reported due to the accounting valuation and leverage often built-into the plans."

"In 2015, we saw a noticeable uptick in support of REIT compensation plans. Only one REIT failed its 2015 Say-on-Pay proposal, down from five in 2014 and REITs that received an 'against' voting recommendation from ISS had a significant increase in support of more than four percent from last year. The increase in support has been the result of multiple factors, including a decrease in 'against' voting recommendations by ISS, an increase in direct shareholder engagement by REIT boards and management teams, and a decrease in the reliance on the recommendation of proxy advisory firms by large institutional investors," Mr. Portal added. "The fact that REITs returned over 30 percent to shareholders in 2014 probably boosted Say-on-Pay support levels as well."

Other key findings of the *2015 REIT Executive Compensation* study conducted by FTI Consulting include:

- More than one-third of REIT executives had no base salary increase in 2014. Of those that did increase over 2013 levels, the average increase was five percent. Preliminary 2015 base salary increases over 2014 levels are expected to be in the same range.
- Annual cash incentives increased by approximately 10 percent for all executives as compared to six percent in 2013, as REITs had strong financial and operational performance in 2014.
- Equity-based compensation adjustments were similar to that of annual cash incentives, ranging from decreases of four percent to increases of over 30 percent, with median increases of nine percent for all executives.
- The use of a purely discretionary/subjective cash bonus program declined from 42 percent in 2010 to just 16 percent in 2014 as more REITs aim to provide investors with more transparency around the compensation setting process.
- Over 80 percent of REITs utilized two or more equity compensation vehicles in their long-term incentive compensation plans, as companies seek to balance retention needs with investors' preference for performance-based equity.
- For REITs that increased board compensation in 2014, the median increase was 13 percent, further indicating that companies generally increase board compensation periodically by large amounts.
- REITs continued to allocate a higher percentage of board compensation toward equity awards, with an approximately 40/60 allocation between cash and equity.
- Approvals of REIT SOP proposals increased in 2015 by 1.9 percent, with REITs with a 'for' voting recommendation from ISS up only 0.5 percent and REITs with an 'against' ISS voting recommendation up 4.0 percent.
- 2015 was the first time that the influence of ISS appears to be decreasing, with only one REIT out of 13 (or less than eight percent) with a negative ISS voting recommendation actually failing its SOP proposal. This represents a decline from nearly 24 percent of REITs failing in 2014 following a negative ISS recommendation.

"2014 was a phenomenal year for REITs, with the MSCI US REIT Index up 30 percent; this translated into solid increases in compensation for most REIT executives and very positive Say-on-Pay voting results. Given that investor returns is a key consideration for REIT compensation committees, 2015 may yield much more tempered adjustments with REIT returns being relatively flat year to date," said Mr. Portal.

About the *2015 REIT Executive Compensation* Study

FTI Consulting reviewed and analyzed compensation-related disclosure in the 2015 proxy statements for the top 125 REITs as determined based on year-end 2014 enterprise values. They exclude externally-managed companies that do not directly pay cash compensation to their named executive officers and also excludes any IPOs or REIT conversions that were completed after June 30, 2014. FTI Consulting generally uses the median, (as opposed to the average) as the preferred statistical measure for evaluating compensation data trends.

About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. With more than 4,400 employees located in 26 countries, FTI Consulting professionals work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management, strategic communications and restructuring. The Company generated $1.76 billion in revenues during fiscal year 2014. For more information, visit www.fticonsulting.com and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.

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