FTI Consulting Study Finds Lower REIT Executive Median Compensation Adjustments in 2015 Compared to Prior Year

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2016 REIT Executive Compensation Study Also Reveals 42 Percent of NEOs Received Pay Decreases, Wide Variation in Compensation Levels Depending on REIT Sector

WASHINGTON, Sept. 22, 2016 (GLOBE NEWSWIRE) -- FTI Consulting, Inc. (NYSE:FCN), the global business advisory firm dedicated to helping organizations protect and enhance their enterprise value, has found a somewhat muted increase in real estate investment trust ("REIT") executive compensation levels compared to 2014, with a substantial percentage of named executive officers ("NEOs") even receiving pay decreases in 2015. These findings were revealed in the firm's *2016 REIT Executive Compensation* study, which focuses on the pay practices at the nation's largest 125 REITs.

Conducted by the Real Estate & Infrastructure group at FTI Consulting, the study found that total compensation level increases for REIT executives in 2015 ranged from 1 to 9 percent depending on the position, with overall median increases of approximately 3 percent. This median figure reflected a decline from individual NEOs' increases in 2014, which were 7 to 11 percent at the median. The compensation adjustment figures vary widely when separated by industry sector, with industrial REIT chief executive officers ("CEOs") receiving the largest increase at 18 percent, followed by office REIT CEOs increasing by 13 percent at the median.

The study reported that 42 percent of REIT NEOs actually received a pay decrease, often times in REIT sectors that posted negative returns in 2015. The deepest pay decreases were seen by healthcare REIT CEOs at 6.5 percent and mortgage REIT CEOs receiving pay decreases of 14 percent.

The *2016 REIT Executive Compensation* study also showed that compensation trends by position varied widely, dropping 4.8 percent among chairmen while rising 9.1 percent among chief operating officers ("COO"), the highest increase among the seven NEO categories surveyed. The study tracked compensation changes across 480 incumbents in the following positions: chairman (-4.8 percent), CEO (+0.8 percent), COO (+9.1 percent), chief financial officer ("CFO") (+6.0 percent), chief investment officer ("CIO") (+7.5 percent), general counsel (+2.5 percent) and other executives (+1.3 percent).

Pay adjustments in 2015 resulted largely from changes in annual cash incentive payouts. Long-term incentive ("LTI") values remained largely unchanged from 2014 levels, the study revealed.

Performance-based equity increased slightly year-over-year. Approximately 82 percent of REITs granted such compensation in 2015, up from 79 percent in 2014. The study reported that for REIT CEOs, approximately 48 percent of equity was allocated to performance shares in 2014, based on grant date fair value ("GDFV").

"This equity allocation is in line with continued board sensitivity to total shareholder return ("TSR") and pay-for-performance compensation philosophies," said Larry Portal, Co-Head of the Executive Compensation & Corporate Governance practice and a Senior Managing Director in the Real Estate & Infrastructure group at FTI Consulting. "REITs aim to structure an equity compensation plan that balances retention through time-vested stock grants and motivating management to increase shareholder value with performance shares generally earned contingent upon TSR performance."

Additional key findings of the *2016 REIT Executive Compensation* study include:

- The median annual bonus target for CEOs was $1 million, which equaled 131 percent of base salary, an increase of 6 percent from 2014.
- Regarding equity compensation, time-vested restricted stock shares with a three-year vesting period are the most common equity vehicle, while the use of stock options continues to decline.
- Approximately 12 percent of REITs utilize post-vesting holding periods, restricting an individual from selling stock awards after the vesting period has elapsed. Proxy advisory firms believe that mandatory holding periods are a form of good compensation governance, providing a mechanism for the recoupment of incentive-based compensation if a clawback policy ever needs to be enforced. In addition, such provisions often result in a reduction of stock-based compensation expense.
- More than half (51 percent) of REITs surveyed increased board compensation, with a median increase of 13 percent. This incidence represents a slight increase from the 46 percent of REITs that increased board compensation in 2014.
    - There is a continued bias toward equity in favor of cash in the total compensation mix, breaking down to about 40 percent cash and 60 percent in equity at the median.
    - The number of REITs that pay committee member fees continues to increase, with the fee generally equal to 50 percent of the chairperson fee.

"The results of the *2016 REIT Executive Compensation* study show continued scrutiny on the part of investors over CEO pay and the organization's compensation structure," noted Katie Gaynor, Co-Head of the Executive Compensation & Corporate Governance practice and a Managing Director in the Real Estate & Infrastructure group at FTI Consulting. "In prior years, the focus of investors and proxy advisory firms was largely directed at plan design. However, during the last proxy season, there was a notable increase in the comments from investors and proxy advisory firms on the goal-setting process. Shareholders are seeking more transparency around incentive plan payouts and the rigor of performance goals."

About the 2016 *REIT Executive Compensation* Study
FTI Consulting reviewed and analyzed compensation-related disclosure in the 2016 proxy statements for the top 125 REITs based on year-end 2015 enterprise values. They exclude externally managed companies that do not directly pay cash compensation to their named executive officers and also excludes any initial public offerings and REIT conversions or spinoffs that were completed after June 30, 2015. FTI Consulting generally uses the median (as opposed to the average) as the preferred statistical measure for evaluating compensation data trends. The top 125 REITs have 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. Download the report.

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 4,600 employees located in 28 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 $1.78 billion in revenues during fiscal year 2015. For more information, visit www.fticonsulting.com and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.

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