



FTI Consulting Study Finds REIT Executive Median Compensation Increased 5 Percent in 2016

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REIT Commitment to Pay-for-Performance Continues to Increase

WASHINGTON, D.C., Aug. 15, 2017 (GLOBE NEWSWIRE) -- FTI Consulting, Inc. (NYSE:FCN) has reported a slight increase in 2016 REIT executive compensation levels over the previous year (5 percent in 2016 as compared to 3 percent in 2015), with a tighter range in pay change by executive position (2 percent to 7 percent in 2016 as compared to 1 percent to 9 percent in 2015). These key findings were revealed in the firm's [2017 REIT Executive Compensation Trends](#) study, which focuses on the pay practices at the nation's largest 150 REITs.

Conducted by the [Real Estate & Infrastructure](#) industry group of FTI Consulting, the study details year-over-year compensation changes and provides meaningful insight and commentary into recent REIT compensation market trends. According to the study, many REIT compensation committees and management teams have expressed a desire to simplify their compensation structures by streamlining performance-based equity programs into one long-term incentive plan and incorporating appropriate payout leverage for a range of performance.

In addition, many compensation committees have reduced the number of metrics in their annual incentive plans to no more than three to five key measures, while increasing the emphasis on annual incentive plan goal setting.

"Companies have been taking a deeper dive into performance goals to understand how meaningful and achievable they are, as the scrutiny on annual incentive plans by proxy advisory firms and investors has shifted from plan design (i.e., formulaic versus discretionary) to the appropriateness of the goals themselves," said [Jarret Sues](#), a Managing Director in the Real Estate & Infrastructure industry group at FTI Consulting. "In addition, compensation committees and management are more focused on evaluating performance metrics beyond total shareholder return ('TSR') for equity awards and determining if certain operational metrics that drive long-term value creation are more appropriate."

REIT commitment to a pay-for-performance philosophy continues to increase, with 84 percent of REITs in the study now utilizing performance-based equity (exclusive of stock options) in the equity award mix, up from 82 percent in 2015 and 34 percent in 2010. In 2016, approximately 50 percent of equity awarded to REIT chief executive officers ("CEOs") was allocated to performance shares based on grant date fair value.

"The continued trend of employing performance-based shares has made realizable compensation analyses increasingly important," Sues said. "Due to the leverage often built into performance-based plans, the ultimate value realized may be significantly more (or less), depending on performance. While many interested parties pay more attention to the summary compensation table, which discloses equity grant date fair values, REITs should be mindful of realizable value, which is important in understanding the complete compensation picture."

Annual incentive plans (e.g., cash bonus plans) at REITs are increasingly more formulaic, based on three to five key measures. In 2016, 87 percent of annual incentive plans incorporated a formulaic component, up from 82 percent in 2015; 25 percent are completely formulaic, up from 17 percent in 2015.

[Larry Portal](#), Co-Leader of the [Executive Compensation](#) practice and a Senior Managing Director in the Real Estate & Infrastructure industry group at FTI Consulting, said, "Compensation committees are increasingly balking at the idea of using too much discretion when it comes to annual incentive plans. Setting pre-determined financial measures, while sometimes difficult to forecast, provides a clear link to compensation amounts, to which shareholders have reacted positively. Companies are aiming to balance excessive risk taking by using too few metrics and focusing management on critical business objectives."

The *2017 REIT Executive Compensation Trends* study also showed that compensation trends by position varied less than previous years; total compensation decreased 0.6 percent among chairmen, while it increased 7.4 percent among general counsel, the highest increase among the seven executive categories studied. The study tracked compensation changes across 527 incumbents in the following positions: chairman (-0.6 percent), CEO (+6.1 percent), chief operating officer (+5.7 percent), chief financial officer (+6 percent), chief investment officer (+2 percent), general counsel (+7.4 percent) and other executives (+2.7 percent).

Additional key findings of the *2017 REIT Executive Compensation Trends* study include:

- The median annual bonus target for CEOs was \$1.05 million, which equaled 132 percent of base salary.
- Regarding equity compensation, time-vested restricted equity with a three-year vesting is the most common equity vehicle, while the use of stock options continues to decline.
- Approximately 91 percent of REITs utilize stock ownership guidelines; six times the base salary is the most common ownership requirement for CEOs, and three times the base salary is the most common ownership requirement for all other executive positions.
- Only 33 percent of REITs increased board compensation in 2016, a significant decline from the 51 percent of REITs that increased board compensation in 2015. At REITs that increased compensation, the median increase was 11 percent.

"TSR has been the long-term performance metric of choice for REITs and proxy advisory firms for over five years," said Portal. "The executive compensation landscape continues to change, and managing the expectations of investors, directors, executives and other interested parties while creating an effective compensation program requires a delicate balance. It will be interesting as we move toward the end of 2017 and beginning of 2018 to see if REITs will adjust course and make more of an effort to link performance to internally calculated operational measures."

About the 2017 REIT Executive Compensation Trends Study

In July 2017, FTI Consulting reviewed and analyzed compensation-related disclosure in the 2017 proxy statements for the top 150 REITs as determined based on year-end 2016 total capitalization values. They exclude externally managed companies that do not directly pay cash

compensation to their named executive officers, as well as IPOs, REIT conversions and spinoffs that were completed after June 30, 2016. FTI Consulting generally uses the median (as opposed to the average) as the preferred statistical measure for evaluating compensation data trends. The top 150 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. For more information on the study's findings, visit: <http://www.fticonsulting.com/insights/reports/2017-reit-executive-compensation-trends>

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 4,600 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 \$1.81 billion in revenues during fiscal year 2016. For more information, visit www.fticonsulting.com and connect with us on [Twitter \(@FTIConsulting\)](#), [Facebook](#) and [LinkedIn](#).

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