FTI Consulting Study Finds REIT Executive Median Compensation Increased 7% in 2017

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Need for Pay Transparency Factors into REIT Compensation Programs

WASHINGTON, July 25, 2018 (GLOBE NEWSWIRE) -- FTI Consulting, Inc. (NYSE:FCN) has found slightly higher year-over-year pay increases in 2017 REIT executive compensation levels despite lower one-year total shareholder returns ("TSR") in the REIT industry. These key findings were revealed in the FTI Consulting *2017-2018 REIT Executive Compensation Trends* study, which focuses on the pay practices at publicly traded REITs.

According to the study, REIT executive compensation increased 7% in 2017 compared to 5% in 2016. Conducted by the Real Estate & Infrastructure industry group at FTI Consulting, the study details year-over-year compensation changes and provides meaningful insight into recent REIT compensation market trends.

Commenting on the study, Katie Gaynor, Co-Lead of the Executive Compensation & Corporate Governance practice within the Real Estate & Infrastructure industry group at FTI Consulting, said, "Compensation transparency has become an important trend that has gained traction over the past several years. Stakeholders ranging from employees to investors and the media are just as interested in how and why compensation decisions are made as they are in the absolute dollar amounts that were paid."

Many of the decisions and changes to REIT compensation programs over the past couple years are rooted in a desire to add more transparency into the process. "The basis of many compensation decisions is predicated on the question of whether the pay package will be easy to communicate to shareholders and plan participants," Ms. Gaynor added. "Many REITs have simplified their compensation programs by using fewer performance metrics and fewer buckets of compensation."

In 2018, 15 self-managed REITs received "against" say-on-pay voting recommendations, up 4% from the prior year. According to the study, ISS continues to be critical of goal setting for incentive programs by citing the rigor of performance goals as a concern at 67% of REITs with a negative ISS say-on-pay voting recommendation. "REITs will need to consider not only the appropriateness of the performance metrics in their incentive plans, but also the rigor of the goals," Ms. Gaynor said. From 2016 to 2017, the median actual annual incentive payout as a percent of target declined year-over-year from 129% to 123%.

Larry Portal, Co-Lead of the Executive Compensation & Corporate Governance practice, added, "REIT fundamentals were relatively strong year-over-year, while cash bonus payouts were down, indicating that 2017 hurdles may have been slightly more challenging than the prior year."

The percentage of REITs now using performance-based equity seems to have stabilized in the past couple years, with 83% of REITs using such programs. In 2017, 26% of REITs included a payout modifier to their performance share plan that adjust the payout based on a secondary measure, which is typically a TSR metric. "Performance share modifiers are expected to become more prevalent given the focus on payouts above target in situations when absolute TSR is negative," Mr. Portal added.

2018 marked the first proxy season for CEO pay-ratio disclosure. The results from the REIT industry show a significant variance, with ratios ranging from 4:1 to 567:1. "We're seeing large variances in pay ratios at REITs, which suggests that we should proceed with caution in comparing pay ratios among REITs," Ms. Gaynor said. "There are large discrepancies in the types of employees included in the median employee calculation, and in REIT sectors where there are a meaningful number of part-time employees, we are bound to see very high ratios."

The *2017-2018 REIT Executive Compensation Trends* study also showed that compensation trends by position varied widely: total compensation remained unchanged at 0.1% among chairpersons, while it increased 10.3% among chief financial officers, the highest increase among the seven executive categories studied and significantly higher than last year's highest median increase of 7.4%. The study tracked compensation changes across 566 incumbents in the following positions: chairman (+0.1%), chief executive officer (+6.0%), chief operating officer (+7.6%), chief financial officer (+10.3%), chief investment officer (+3.7%), general counsel (+8.1%) and other executives (+5.6%).

Additional key findings of the FTI Consulting *2017-2018 REIT Executive Compensation Trends* study include:

- CEO pay increases were largest at industrial REITs (+20%) and smallest at retail REITs (-2%), which corresponds with the fact that these were also the best and worst performing REIT sectors in terms of TSR performance, respectively.
- Regarding equity compensation, time-vested restricted equity with a three-year vesting continue to be the most common equity vehicle, with the use of LTIP units increasing slightly year-over-year. The use of stock options continues to decline.
- 39% of REITs increased board compensation in 2017 as compared to 33% in 2016. Additionally, for REITs that increased compensation, the median increase also grew from 11% in 2016 to 13% in 2017.
- The use of operational metrics for performance shares increased slightly to 37% of REITs from 34% of REITs in 2016. Their use is skewed toward larger REITs, with fewer small cap REITs using non-TSR measures.

"TSR continues to be the performance metric of choice for REITs," Ms. Gaynor added. "Operational measures are becoming more prevalent, but mostly at larger REITs that are less sensitive to the variable G&A expense associated with using these metrics. It will be interesting to see how quickly and to what degree the use of non-TSR measures for performance shares will trickle down to smaller REITs."

About the *2017-2018 REIT Executive Compensation Trends* Study

In July 2018, FTI Consulting reviewed and analyzed compensation-related disclosure in the 2018 proxy statements for 160 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 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 2017. For more information, visit www.fticonsulting.com and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.

FTI Consulting, Inc.
555 12th Street NW
Washington, DC 20004
+1.202.312.9100

Investor Contact:
Mollie Hawkes
+1.617.747.1791
mollie.hawkes@fticonsulting.com

Media Contact:
Nina Dietrich
+1.201.493.8944
nina@ninadietrich.com

FTI Consulting, Inc.