REIT Compensation Trends

2018-2019 Compensation and Corporate Governance Report and Analysis

July 2019

Agenda

Firm Introduction

Today's Presenters

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Larry Portal is a Senior Managing Director at FTI Consulting and is based in Roseland, New Jersey. Mr. Portal is a member of the Corporate Finance group where he co-leads the firm's Executive Compensation and Corporate Governance practice, leads the firm's Business Tax Advisory group and is involved with several firm initiatives

Mr. Portal has achieved industry-wide recognition for his tax expertise in the structuring of corporate and private real estate transactions, including mergers and acquisitions. In addition, he is widely considered a leading expert in the field of REIT and real estate executive compensation and has consulted with many leading public and private real estate companies in the design and implementation of their compensation programs

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Katie Gaynor is a Managing Director at FTI Consulting and is based in Charlotte, North Carolina. Ms. Gaynor is a member of the Corporate Finance group and co-leads the firm's Executive Compensation and Corporate Governance practice

Ms. Gaynor has over 15 years of executive and corporate governance consulting experience. During this time, her responsibilities have included compensation planning and structuring for public and private companies, drafting compensation disclosures to comply with requirements set forth by the Securities and Exchange Commission (SEC), conducting corporate governance reviews, compensation planning for initial public offerings and for mergers and acquisitions and developing industry-related compensation surveys. Ms. Gaynor has also worked on several REIT transactions, including IPO structuring and Internalizations, deal negotiations, earn-out structuring and the preparation of shareholder communications

Executive Compensation Practice at FTI Consulting

The Executive Compensation and Corporate Governance Advisory Practice at FTI Consulting has served as the trusted advisor to over 100 public and private real estate companies, providing the following services:

Competitive Compensation Review	Incentive Plan Design	Proxy-Related Services	Corporate Governance Services
Peer group development and benchmarking	Performance metric and goal setting to drive real performance	Draft proxy content and design graphics	Shareholder engagement and outreach
Pay magnitude and program structure	Pay mix	Calculate potential severance payments	Guidance on institutional investor and proxy advisor policies
Employment and severance agreements	Plan leverage and calibration	CEO pay ratio calculations	Board and executive evaluations
Salary banding and grading	Accounting and tax implications	Equity incentive plan design	Succession planning
Pay philosophy and objectives	Plan vehicle selection	Audit of compensation tables	Compensation risk assessments
Board of directors compensation	Payout calculations	Forecast pay-for-performance results under the ISS model	Corporate governance diagnostics

Executive Summary – Key Findings

2018 Compensation Trends – Key Takeaways

6% Overall increase in 2018 executive pay levels over 2017, with actual increases ranging from **0% to 7%** by position

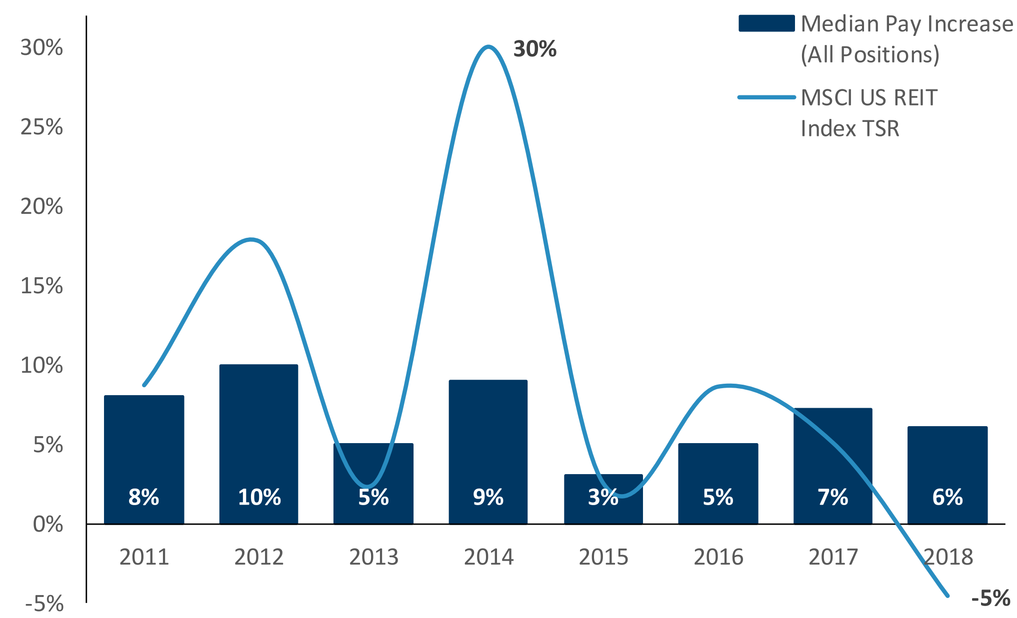
Compensation adjustments varied across the different REIT sectors with **Diversified REIT CEOs** receiving the highest median increase of **20%** (due in part to special equity grants at these companies)

CEO cash bonuses increased by **8.5%** in 2018 compared to almost **3%** in 2017. The median payout as a percent of target was

121% of target in 2018 versus **123%** in 2017

Outsized equity awards (including supplemental one-time awards) continues to be a pressure point, with ISS citing this as an area of concern at **63%** of self-managed REITs that received an Against voting recommendation

477:1 The highest REIT CEO pay ratio; median ratio of **57:1**



Fewer self-managed REITs failed Say-on-Pay in 2019 despite increased pressure from ISS

2 REITS Failed Say-on-Pay (down from 3 in 2018) while ISS issued an Against voting recommendation for 19 self-managed REITs (up from 15 in 2018)

Non-TSR performance metrics are increasing in prevalence, with Industrial, Office and Mortgage REITs significantly increasing utilization

Recent REIT Market Trends

Revisiting Performance Share Plan Design. Following the adoption of Say-on-Pay, the use of performance-based equity soared with most REITs using relative TSR as the primary performance metric (77% of REITs use relative TSR). Many REITs are conducting more extensive reviews of the performance share plans and making adjustments as appropriate

- Increased use of non-TSR measures (metric diversification)
- Focus on understanding the accounting impact and how to manage the cost of these programs
- Reviewing results of past plans to ensure that the relationship between pay and performance were appropriately correlated

Focus on Setting Cash Bonus Goals. Short-term incentives should be based on performance targets that are considered achievable, but require strong effort, which requires rigorous planning and forecasting. The onus for REITs with declining profitability is even higher

- "Maximum" payouts may need to include more significant stretch goals than prior plans since it is harder to justify above target payouts in periods of declining profitability and should require extraordinary effort
- ISS guidelines state that "clear disclosed rationale for lowered financial performance targets" is necessary
- If the decline is a direct result of mismanagement, paying significant value to executives to "fix their mistakes" may be harder to justify

Impact of M&A on Compensation. M&A activity continues to rise and has resulted in:

- Implementation of new employment agreements, severance arrangements and Change-in-Control provisions in compensation programs (for both the C-Suite and the broader employee population) Description of the program in terms of both dollar values and structure in a more tabular/bulleted format
- Proactively reviewing potential 280G tax implications

2018 Compensation Adjustments

Compensation Trends by Position

- Median compensation levels in the REIT industry increased (decreased) from 2017 to 2018 by position as follows[1]:

Position	Base Salary	Cash Bonus	LTI GDFV	Total Comp
All Incumbents (576 Incumbents)	2.9%	5.5%	3.9%	6.0%
Chairperson (19 Incumbents)	0.0%	2.3%	0.0%	0.0%
Chief Executive Officer (146 Incumbents)	0.0%	8.5%	4.5%	6.9%
Chief Operating Officer (65 Incumbents)	3.0%	2.6%	6.6%	7.0%
Chief Financial Officer (124 Incumbents)	3.0%	5.3%	3.8%	6.6%
Chief Investment Officer (37 Incumbents)	2.9%	2.6%	-1.6%	4.0%
General Counsel (66 Incumbents)	3.0%	6.2%	5.5%	5.9%
Other Executives (119 Incumbents)	3.1%	6.0%	5.3%	5.8%

Chairperson compensation continues to experience increased scrutiny; of the 19 incumbents, 9 had a reduction in compensation, with a median decrease of 16%

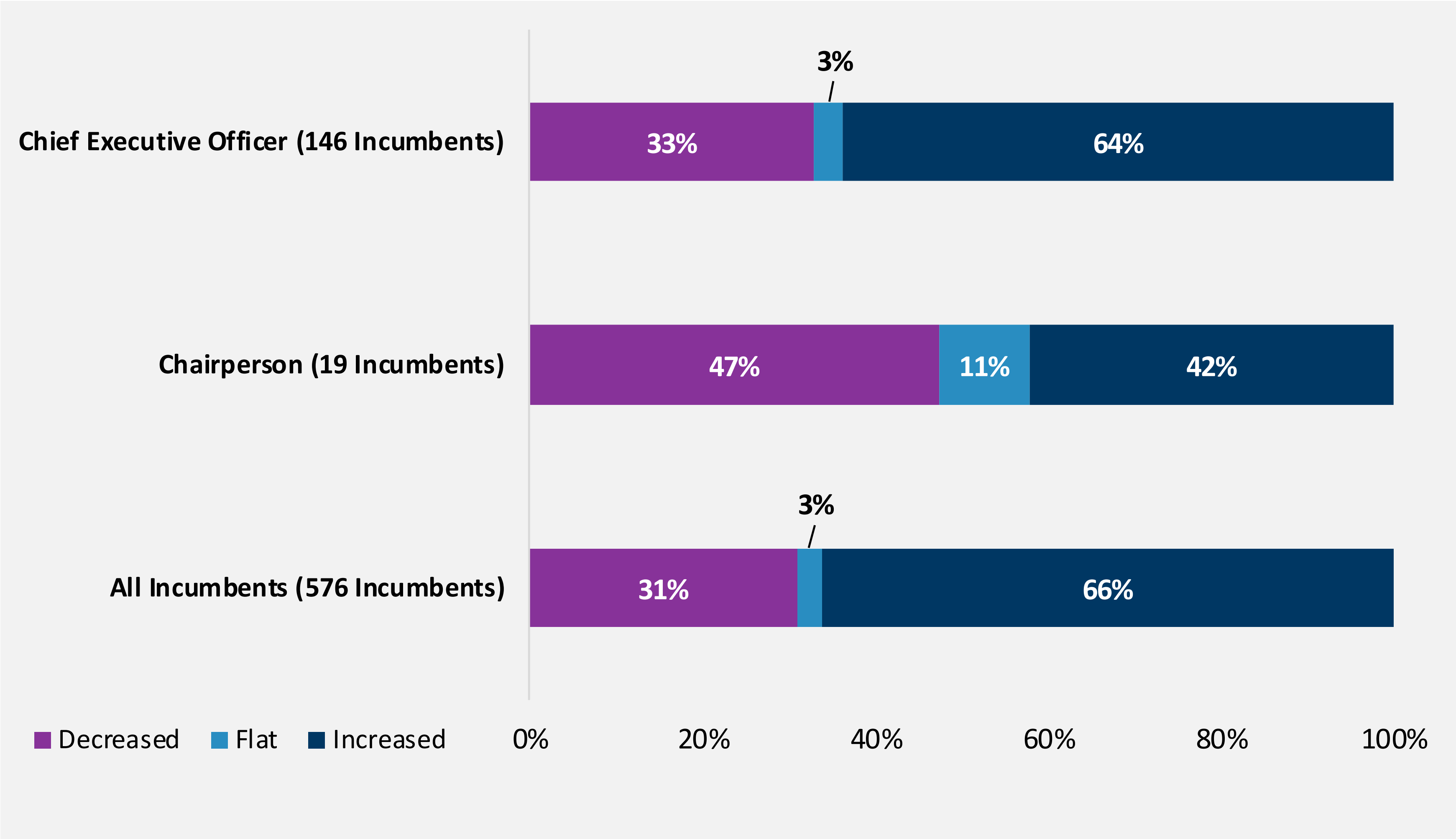
"Reportable" pay is more correlated to annual earnings and operational performance and less on 1YR TSR performance, which resulted in pay increases despite negative 2018 returns in the REIT industry

Footnotes:

[1] Only includes incumbents who served in the same role in both 2017 and 2018. New hires and promotions were excluded from the analysis

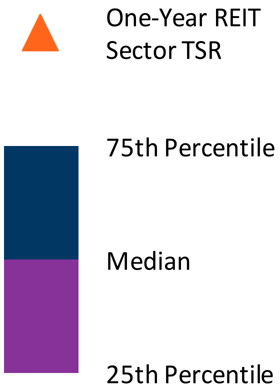
Distribution of 2018 Changes in Compensation

Compensation increased for most REIT executives across all positions but a meaningful percentage also received pay reductions in 2018

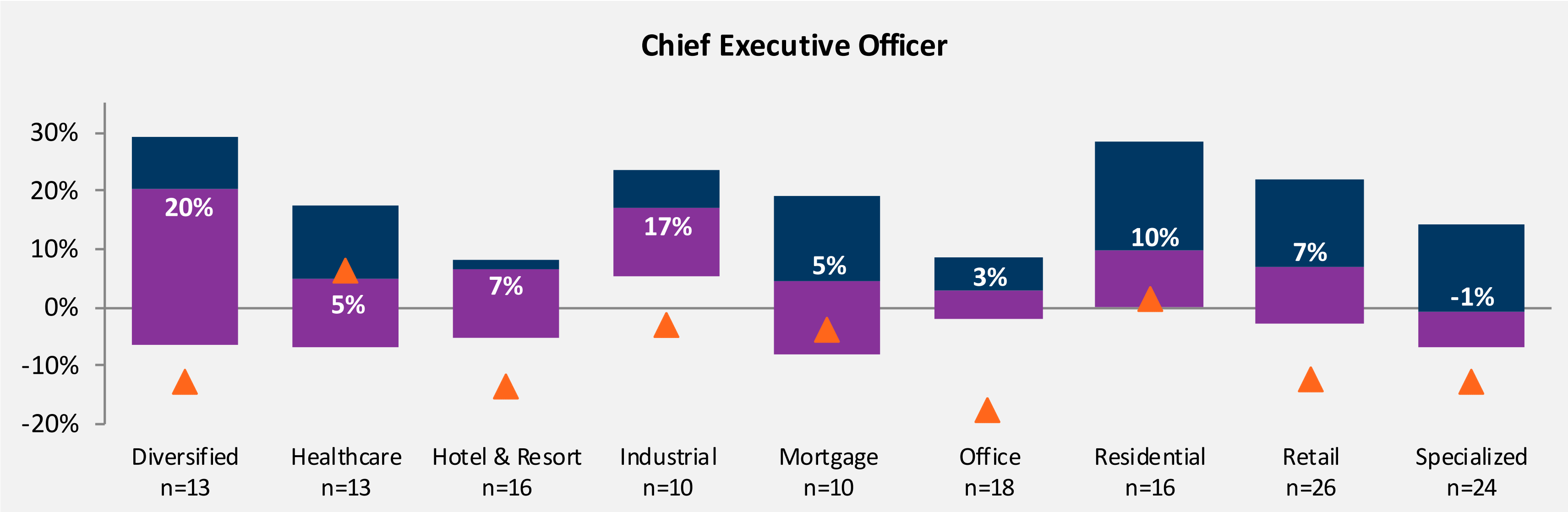


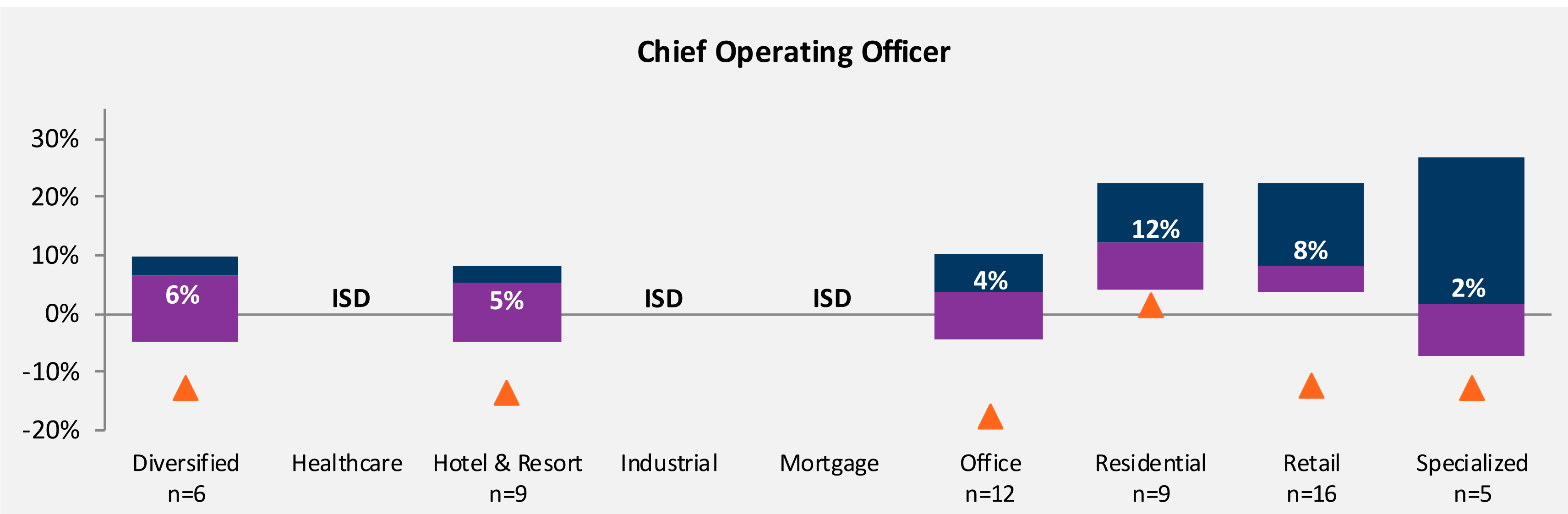
Compensation Trends by REIT Sector (CEO & COO)

Legend



One-Year REIT Sector TSR data is as of 12/31/2018 based on the applicable SNL sector index





Compensation Trends by REIT Sector (CFO & Other Executives)

Legend

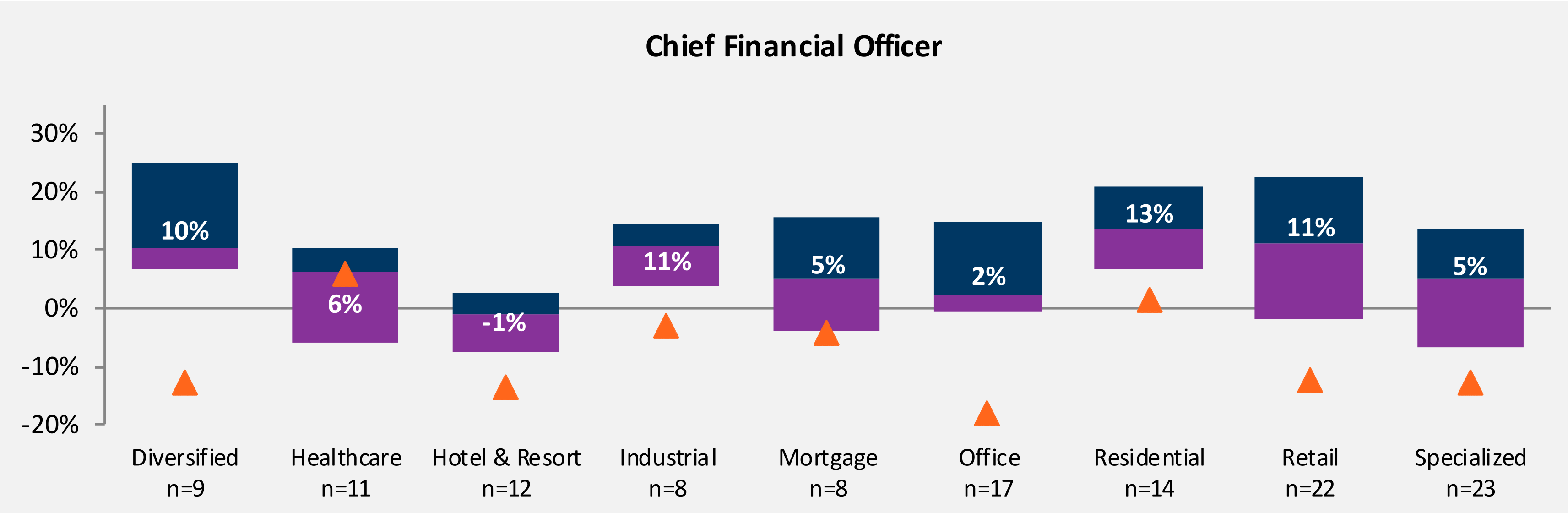
One-Year REIT Sector TSR

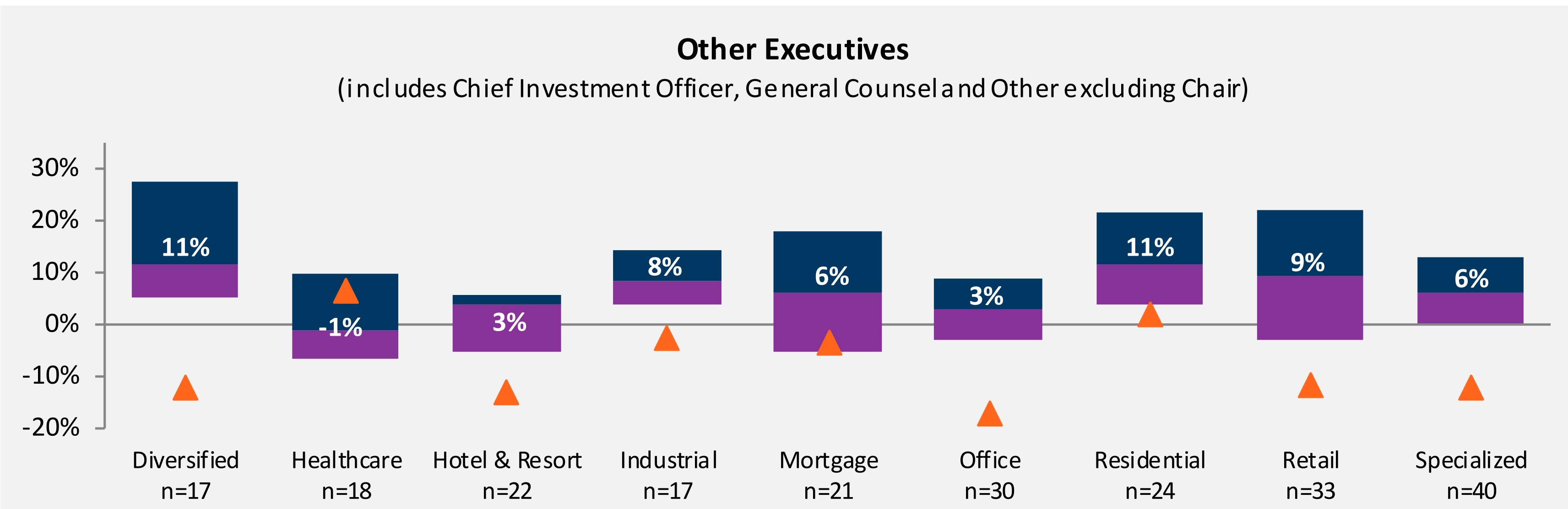
75th Percentile

Median

25th Percentile

One-Year REIT Sector TSR data is as of 12/31/2018 based on the applicable SNL sector index

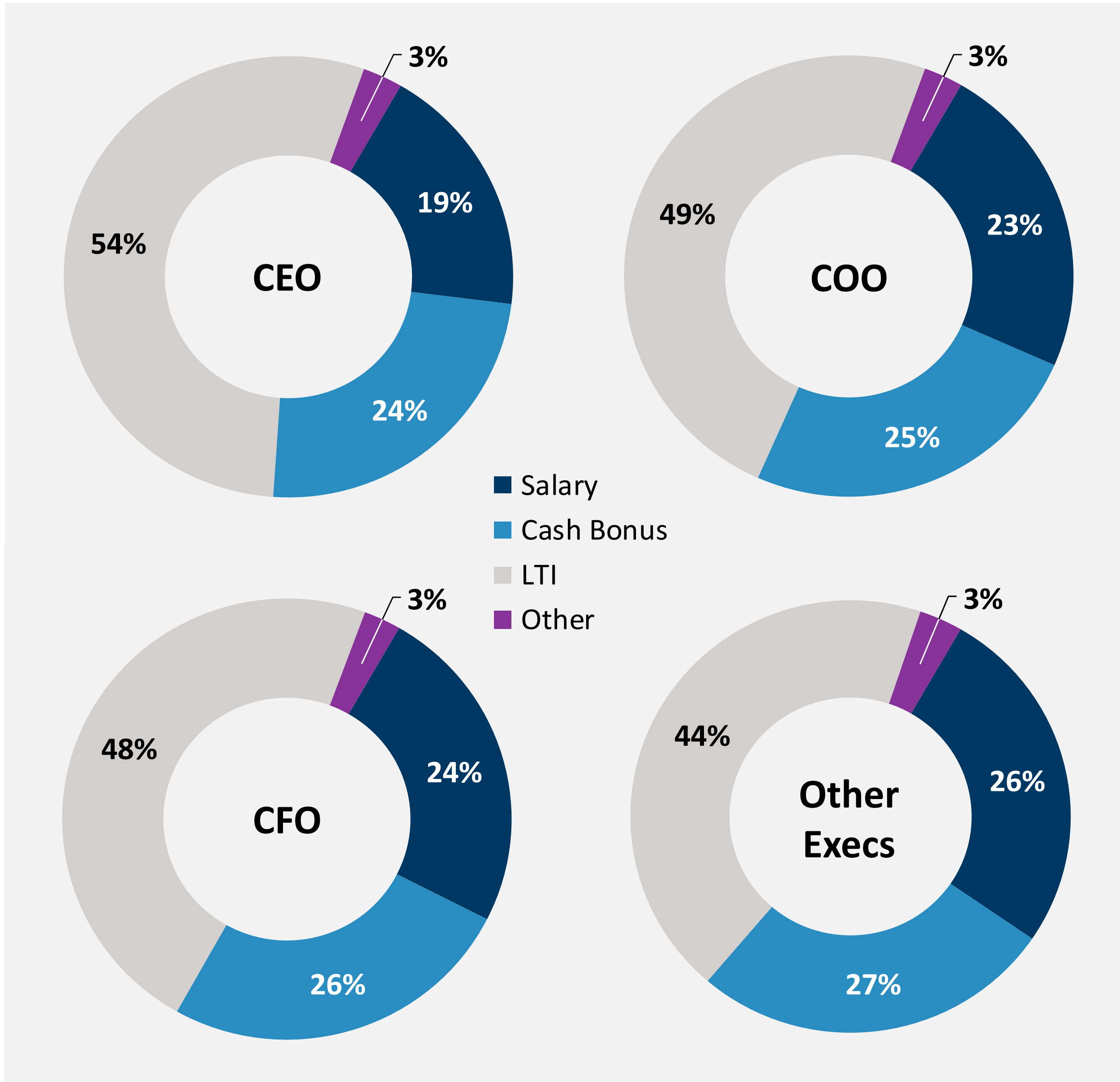




Executive Compensation Design Trends

2018 Pay Mix

The pay mix between the four key components of executive compensation has remained relatively consistent over the past few years



Annual Cash Incentive Plan Design

- **Plan Design** – Formulaic cash incentive plans that incorporate a discretionary component continue to be the most commonly utilized plan design (based on the design used for the CEO)
  - 80% allocation to objective, corporate measures and 20% to discretionary or subjective measures remains the most frequently utilized allocation

Bonus Plan Structure

Plan Type*	2013	2014	2015	2016	2017	2018
Entirely Discretionary	22%	16%	18%	13%	22%	23%
Entirely Formulaic	14%	14%	17%	25%	20%	17%
Formulaic with a Subjective Component	63%	70%	65%	62%	58%	60%

*Includes bonus pools, sorted into category most closely aligned with the program

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

- **Bonus Targets** – Target bonus opportunities (as a percentage of base salary) has remained relatively consistent

	Target Annual Incentive		Leverage as % of Salary	
Position	Dollar Value	% of Salary	Minimum	Maximum
Chief Executive Officer	$1,096,875	150%	53%	215%
Chief Operating Officer	504,000	100%	48%	160%
Chief Financial Officer	450,000	100%	40%	150%
Chief Investment Officer	538,750	115%	50%	188%
General Counsel	359,860	100%	43%	150%
Other Executives	390,035	100%	25%	126%

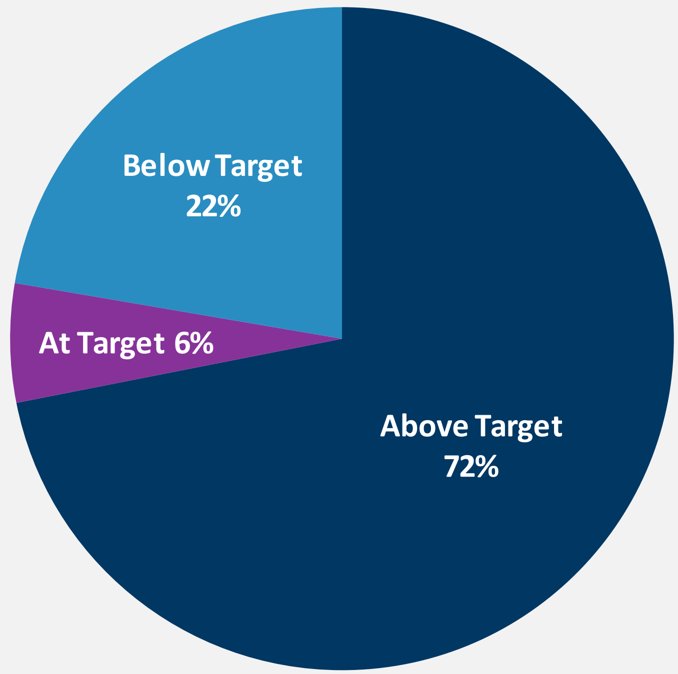
Cash Bonus Payouts

- 2018 CEO cash bonus payouts were **21% above target** (at the median), with approximately **72% of CEOs receiving payouts above target**

- Cash bonus payouts increased by 8.5% year-over-year while payouts as a percent of target decreased from 123% to 121% of target indicating that **CEO bonus opportunities increased in 2018**

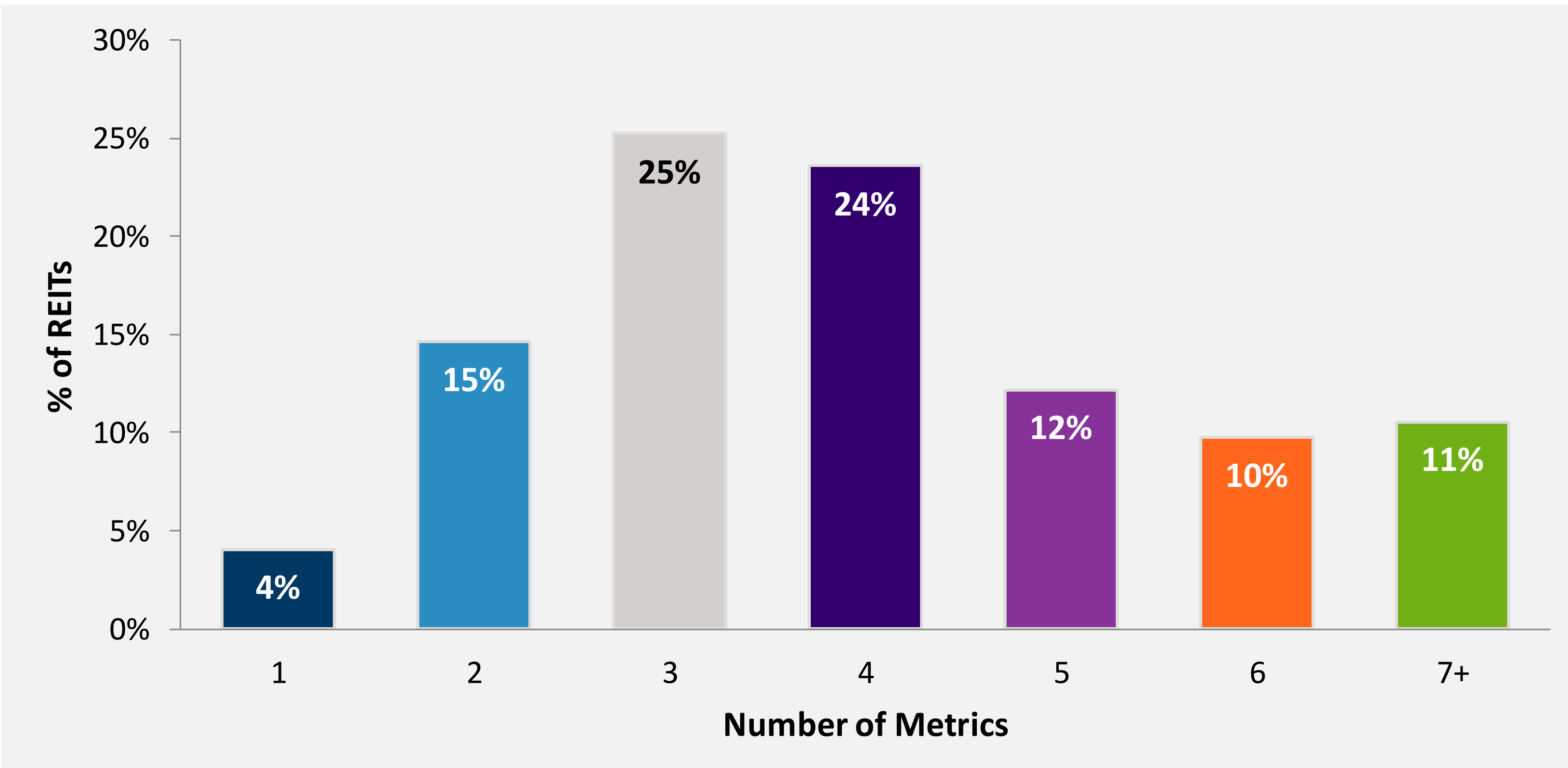
- **8 REIT CEOs** in 2018 received a bonus payout at the **Maximum Level**

2018 CEO Bonus Payouts Compared to Target



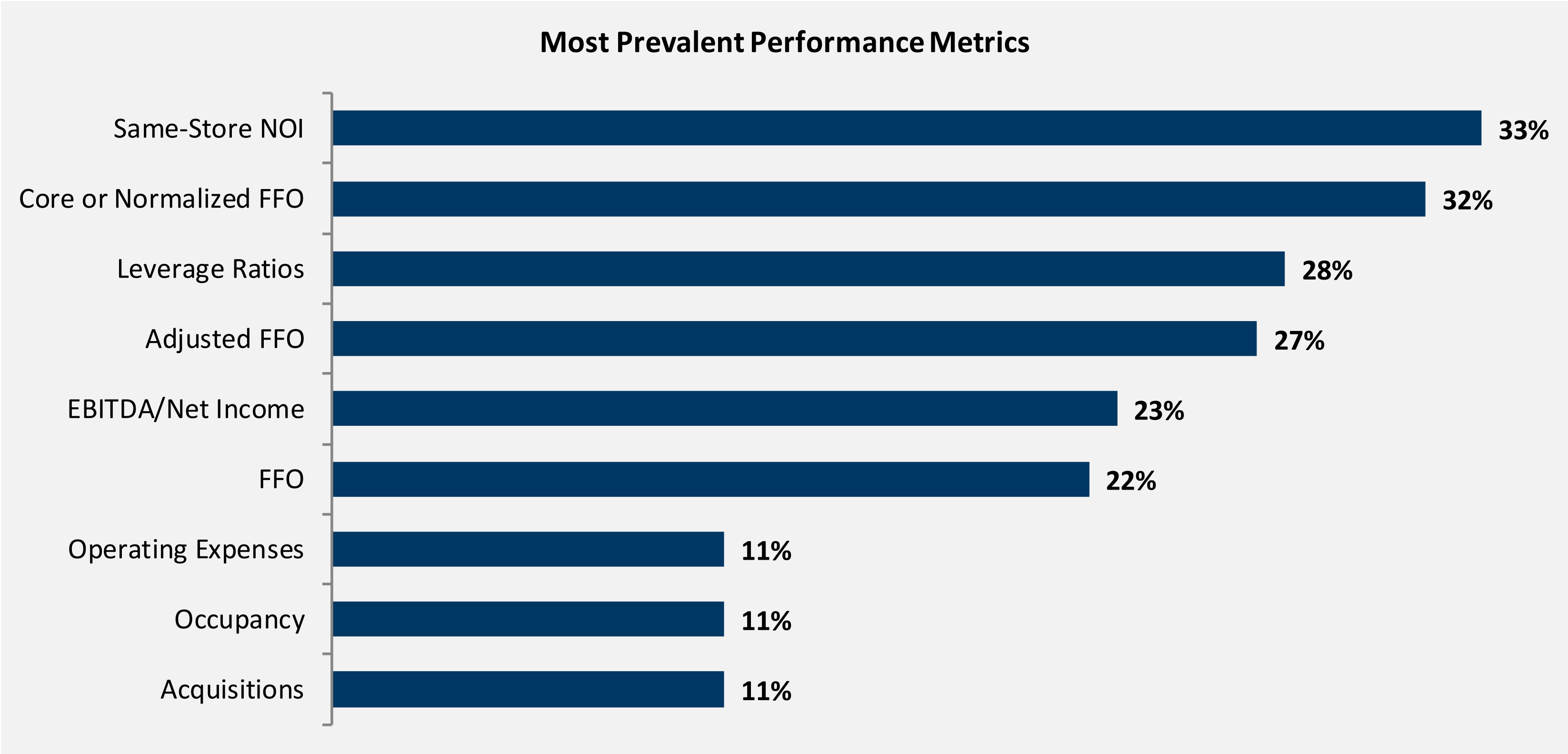
Annual Cash Incentive Plan Design – Metrics

- Based on the CEO's annual cash incentive plan, most REITs used between 3 and 5 bonus metrics as companies aim to balance motivating excessive risk-taking by using too few metrics and focusing management on critical business objectives
  - The utilization of 3 metrics was the most prevalent (up from 18% in 2017); historically 4 metrics was the most common
  - The number of REITs using 6+ metrics increased (21% of REITs in 2018 vs. 16% in 2017) after years of steady decline; REITs going through "disruptive" periods are including additional strategic priorities while continuing to use earnings and operational metrics

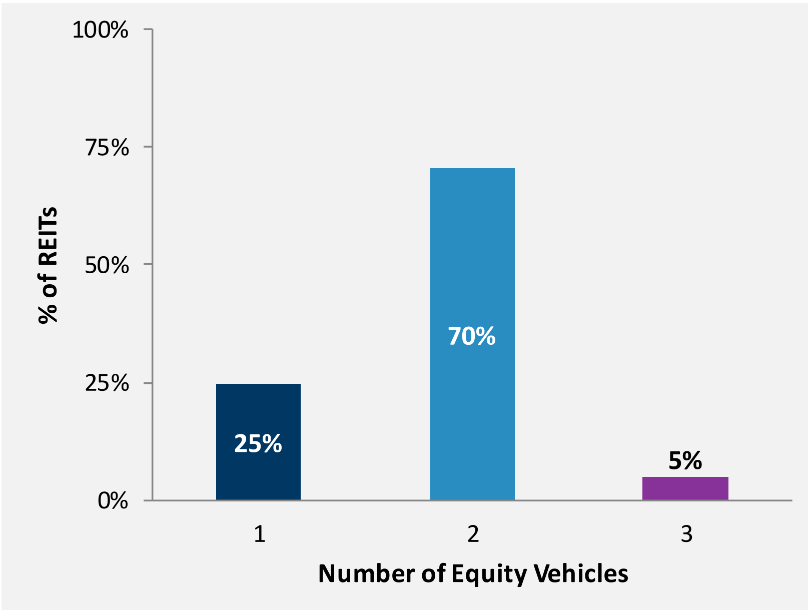


Annual Cash Incentive Plan Design – Most Prevalent Metrics

- The most commonly utilized corporate performance metrics continue to be per share earnings metrics, with the following representing the most common corporate metrics (in order of prevalence):
  - Using an FFO-based metric is the most common (either NAREIT-defined, Core, Normalized or Adjusted) and is used by 81% of REITs
  - Same-store NOI and Leverage Ratios continue to be the most utilized non-earnings metrics in the REIT industry
  - Operating expenses increased in use (less than 10% last year) and appears on the most prevalent list for the first time



Equity Compensation Vehicles

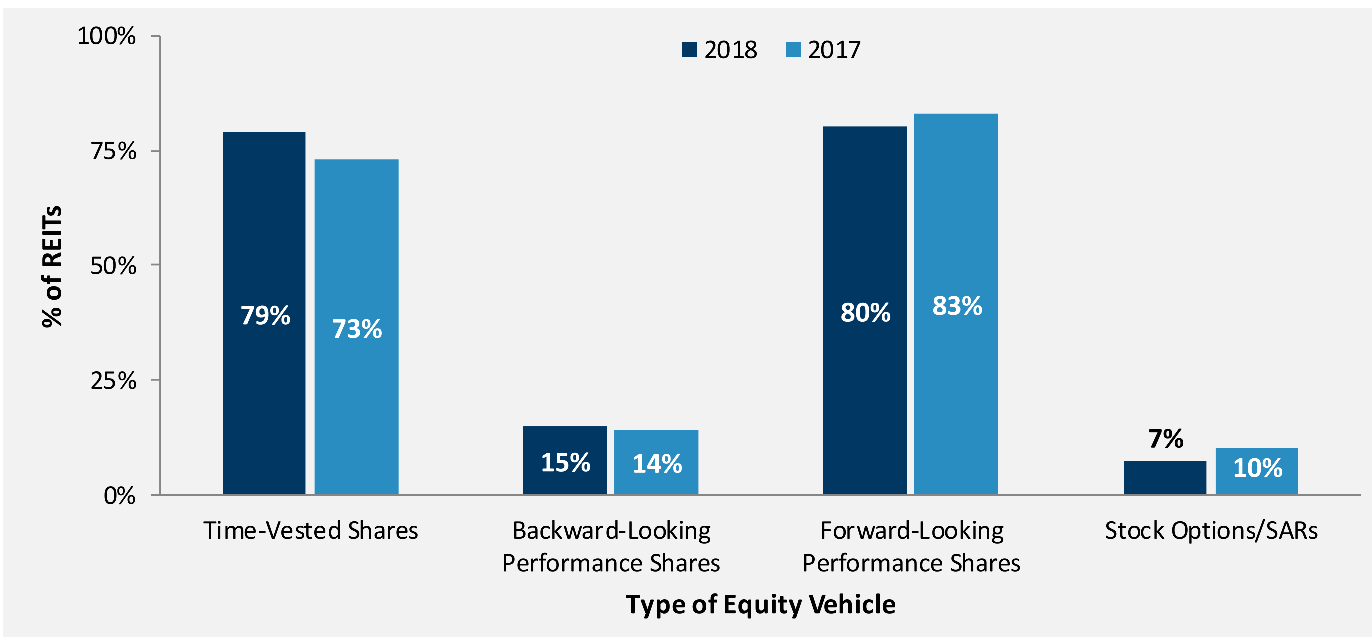


The majority of REITs utilized **2 equity compensation vehicles**

Performance shares continue to use forward-looking performance goals

Approximately **25%** of REITs utilize LTIP Units as a form of equity

3 years continues to be the most prevalent vesting and performance period



Performance Share Modifiers

More REITs have begun using a performance share modifier that **acts as a secondary measurement**

31% of REITs that use performance shares use a modifier (up from 26% in 2017)

Modifiers can **limit, multiply, reduce or set minimum payout levels** after the primary or initial payout calculation

Absolute TSR is the most commonly used modifier

75% of REITs that use a modifier use absolute TSR as the secondary measurement, followed by relative TSR as the second most commonly used metric

Only one REIT uses a non-TSR modifier based on Net Debt/EBITDA and three REITs have a discretionary modifier based on the Compensation Committee's assessment of absolute TSR and other qualitative assessments

53% of modifiers limit the payout if absolute TSR does not meet a certain threshold

Multipliers are the next most common modifier (representing 33%) and adjust the award up or down, with a **plus or minus 50% adjustment** being the most prevalent (vs. 25% adjustment in 2017)

Modifiers continue to **increase in utilization** in response to ISS criticism

4 REITs (or 21% of REITs with a negative ISS say-on-pay voting recommendation) were criticized for not limiting or capping payouts if absolute TSR is negative

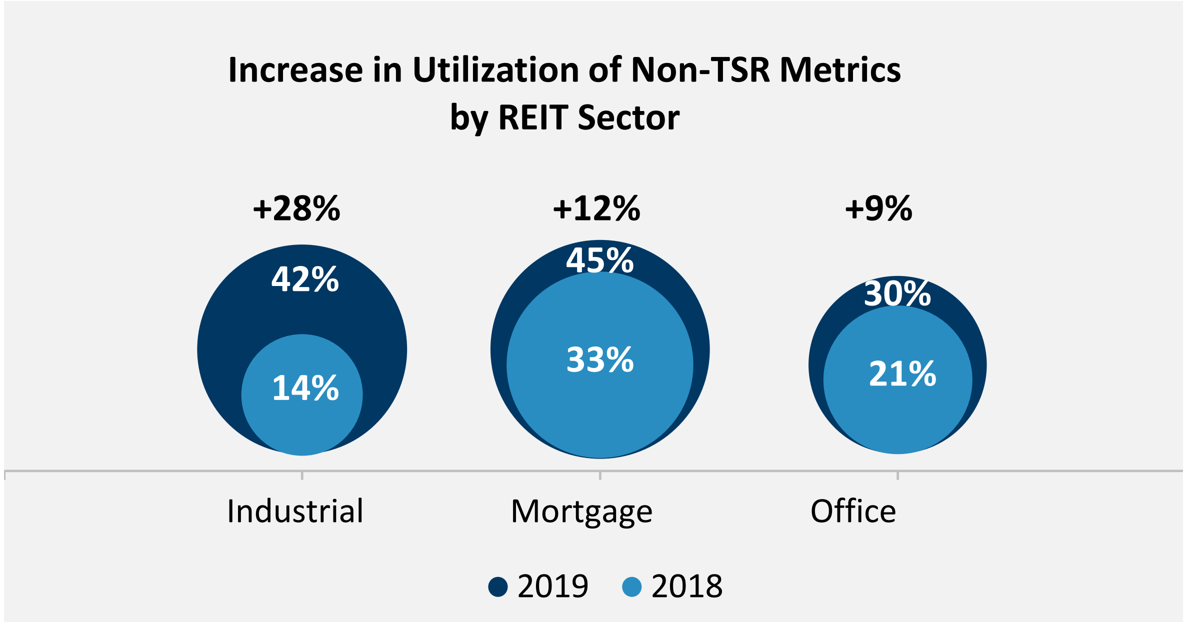
Performance Share Metrics

77% of REITs that grant performance shares use relative TSR as a metric (represents the most widely used performance share metric)

The use of sector-based comparison groups continues to the most widely used

Non-TSR metrics are increasing in prevalence, with approximately **43% of REITs using at least one financial/operational metric** in their LTI program (up from 37% in the 2017)

Increase in non-TSR measure utilization during 2018 was largely driven by the select REIT sectors:



Innovation in Long-Term Incentives

Outperformance Time-Based Shares

- "Original" time-based equity award will vest solely based on time and will not be subject to risk of forfeiture associated with performance-based conditions
- "Outperformance" modifier can increase (but not decrease) the original time-based award by up to 2x-3x for achievement of certain operational/earnings goals
- This concept is in addition to more traditional performance-based equity grants

Promote-Based Programs

- Allows management/investment professionals to earn a portion of any promote income received by the REIT (usually in connection with a fund business, but may also be a JV)
- Competitive compensation element, particularly for those competing with private equity firms for talent
- Can be structured as profit interests for capital gains tax treatment purposes

"AO" LTIP Units

- Represents a stock appreciation right in the REIT's Operating Partnership with pre-tax economic benefits similar to stock options
- Generally provides for capital gains tax treatment
- REITs have included performance hurdles (in addition to the necessary stock appreciation required to be in "in-the-money")

Employee Stock Ownership Plan

- Most commonly used to provide a market for owners of successful closely held companies to motivate and reward employees, or to take advantage of incentives to borrow money for acquiring new assets in pretax dollars
- ESOPs have a number of potential tax benefits
- While usually not used at public companies, one REIT uses an ESOP in lieu of equity compensation

2019 Say-on-Pay Results

2019 Say-on-Pay Results

- Despite receiving more Against recommendations from ISS in 2019, REITs fared better in terms of failed Say-on-Pay proposals

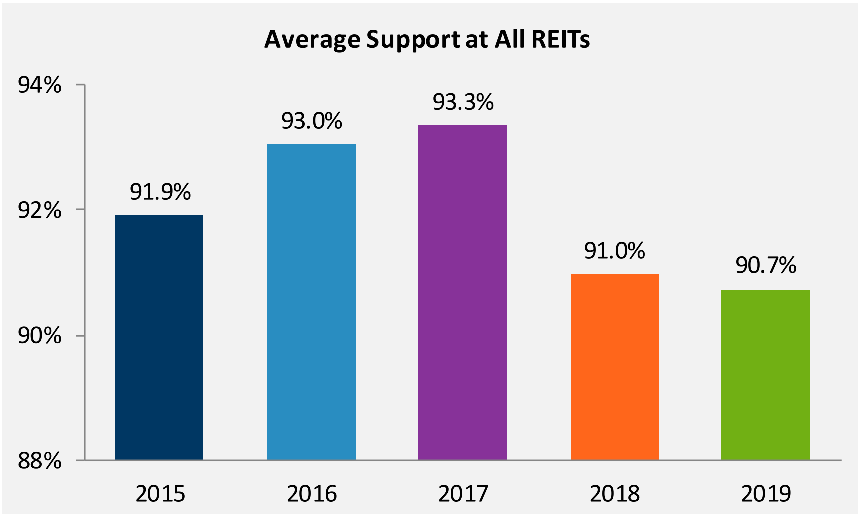
Industry/Index	Year	Average Support	ISS Against Voting Recommendations #	ISS Against Voting Recommendations %[1]	Failed Say-on-Pay Proposals #	Failed Say-on-Pay Proposals %[1]
All REITs	**2019**	**89.74%**	**30**	**17.2%**	**2**	**1.1%**
	2018	90.00%	26	14.9%	4	2.3%
Self-Managed REITs	**2019**	**90.73%**	**19**	**13.0%**	**2**	**1.4%**
	2018	90.96%	15	9.9%	3	2.0%
Externally-Managed REITS (EMIs)	**2019**	**84.57%**	**11**	**39.3%**	**0**	**0.0%**
	2018	84.23%	11	45.8%	1	4.2%
Russell 3000	**2019**	**90.48%**	**288**	**13.3%**	**50**	**2.3%**
	2018	90.58%	286	13.7%	47	2.3%

Source: ISS Corporate Solutions for data available as of July 2, 2019

- The guarantee of 90%+ shareholder support with a positive ISS recommendation is fading as investors and shareholders are more apt to formulate their own opinions on executive pay matters
  - Over the past couple of proxy seasons, most large institutional shareholders have conducted due diligence in conjunction with their own independent policy positions, even if the proxy advisory firms recommended “For” a Say-on-Pay proposal
  - CalPERS voted “Against” 43% of Say-on-Pay proposals for US companies in the Russell 3000 during 2018 (vs. ISS recommended “Against” 14% of companies); largely driven by CalPERS policy for 5 year vesting/restriction period to be considered “long-term”

[1] Total number of Say-on-Pay proposals each year may vary based on reporting companies; accordingly, the percentage listed may not coincide with the increase (decrease) in the number of companies year-over-year

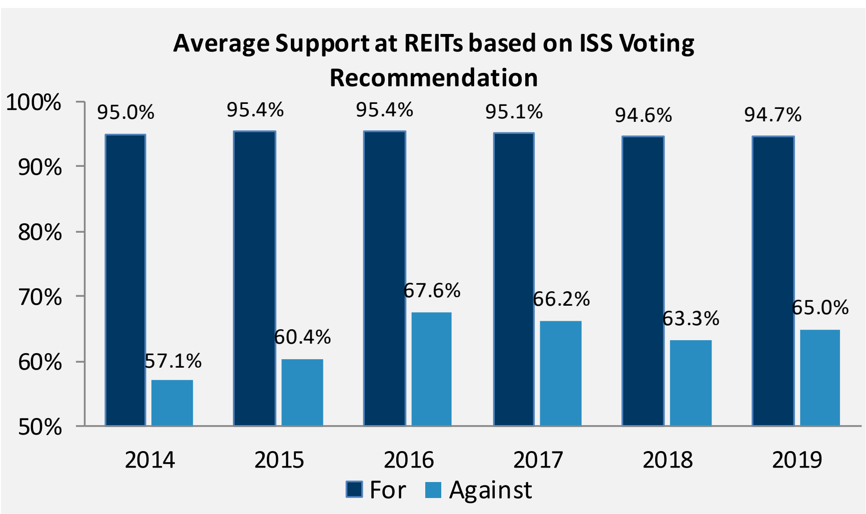
Snapshot of Self-Managed REIT Say-on-Pay Results

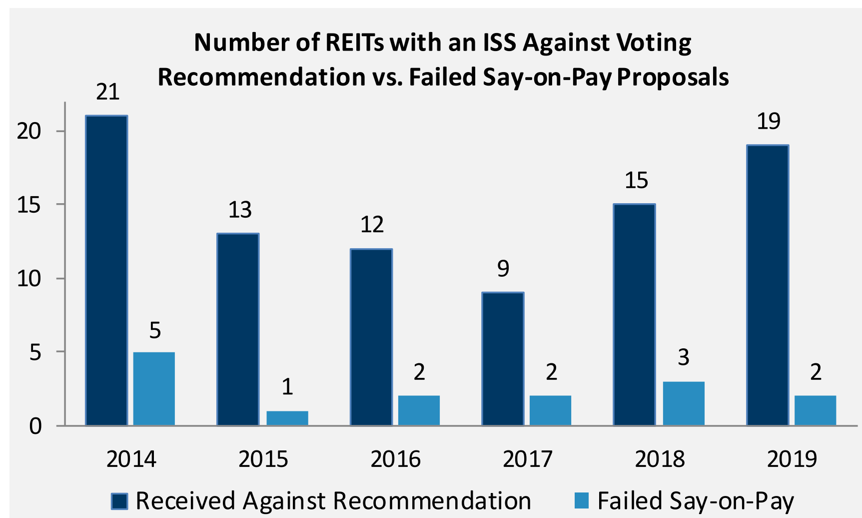


19 self-managed REITs received a negative Say-on-Pay voting recommendation from ISS in 2019, up from **15** in 2018

2 REITs failed Say-on-Pay

REITs that received 80% - 85% shareholder support following a positive ISS recommendation **increased to 4** indicating the downward pressure experienced when deviating from policies of a particular institutional investor





Factors Influencing ISS Voting Recommendations

- **A perceived pay-for-performance misalignment continues to be the main precursor of negative voting recommendations**
  - 89% of self-managed REITs that received an Against were cited for pay-for-performance misalignment
  - 2 REITs with a "Low" concern triggered negative recommendations based on severance provisions
- Factors outside of a pay-for-performance disconnect cited by ISS included:

63%

had **outsized equity awards**, either annual grants or **supplemental one-time awards**, often despite sustained TSR underperformance

21%

provided **significant perks** – automobile-related or large enhanced life insurance perks

26%

had **outsized STI targets** and/or **outsized base salary amounts** (or significant increases without compelling rationale)

58%

had **problematic STI (Cash Bonus) program design** features, including largely discretionary plans or lack of pre-set financial metrics

68%

were cited for the **rigor of their performance goals** (STI or LTI), including rTSR targets at or below median and uncapped payouts for negative absolute TSR

53%

had **problematic LTI (Equity) program design** features, including annual performance periods, insufficient performance-based awards or retesting features

58%

had **problematic severance-related provisions**, including excise tax gross-ups, excessive severance-basis and single-trigger equity vesting

* All percentages are out of 19 that received an Against Say-on-Pay voting recommendation from ISS

Spotlight on Equity Plan Proposals

- During the 2019 proxy season, **ISS recommended Against equity plan proposals to increase the number of shares reserved for compensation purposes despite receiving a passing score under the model**

- The foundation of ISS' equity plan review is based on the points earned under the **Equity Plan Scorecard** that evaluates plan cost, grant practices and plan features

- In select circumstances, ISS has now begun issuing an adverse voting recommendation on equity plan proposals even in situations when a company is above the 53 point threshold necessary under the Scorecard if:

  - A **pay-for-performance misalignment** is identified in connection with the Say-on-Pay proposal; AND

  - Equity utilization is **not considered "broad-based"** and is heavily concentrated to grants made to the CEO and other NEOs (i.e., 3-year average concentration ratio of grants greater than 30% for the CEO or 60% for all NEOs, inclusive of the CEO)

- While ISS issued 8 negative voting equity plan recommendations, no REIT failed to approve an equity plan proposal with the lowest support at 73.5%

Board Compensation Trends

REIT Board Compensation Trends

2018/2019 board compensation levels were relatively unchanged at the median

(by comparison, average board compensation increased by 5%)

39% of REITs increased board compensation (same as 2017)

At REITs that increased board compensation, the median increase was **10%** (down from 13% in 2017/2018)

39/61 **pay mix**

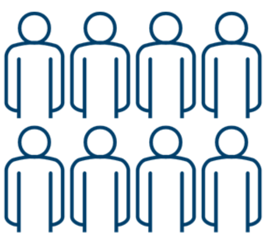
Cash / Equity (at the median)

The pay mix continues to be biased in favor of equity over cash (slight shift up from 60% in 2017/2018)

Equity is almost always delivered in full-value shares awarded under a fixed-dollar value formula with immediate and one year being the most common vesting periods

24% of REITs pay meeting fees (down from 26%)

43% of REITs that pay meeting fees only pay fees above a certain threshold to provide additional compensation in years that the board is more active (most commonly 8 meetings)



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board members

At the median, most boards have **7 non-employee directors** that are paid compensation for their board service

Additional Retainers and Fees

Most REITs provide additional fees for service as non-executive chair/lead independent director and committee chairpersons in recognition of their additional time commitments and responsibilities

The number of REITs that pay committee member fees increased slightly from 2017 to 2018

Committee member fees are generally equal to 50% of the chairperson fee

Governance committee fees increased modestly in conjunction with enhanced responsibilities

	2018		2017	
Fee/Retainer	**Prevalence**	**Median Pay**	**Prevalence**	**Median Pay**
Lead Independent Director	48%	$25,000	51%	$25,000
Non-Executive Chair	43%	$75,000	39%	$75,000
Committee Meeting Fees	22%	$1,500	27%	$1,500
Committee Chair				
Audit	94%	$20,000	93%	$20,000
Compensation	91%	$15,000	89%	$15,000
Nominating & Governance	86%	$13,000	84%	$12,500
Committee Member				
Audit	55%	$10,000	52%	$10,000
Compensation	52%	$8,000	48%	$7,500
Nominating & Governance	49%	$6,500	44%	$6,000

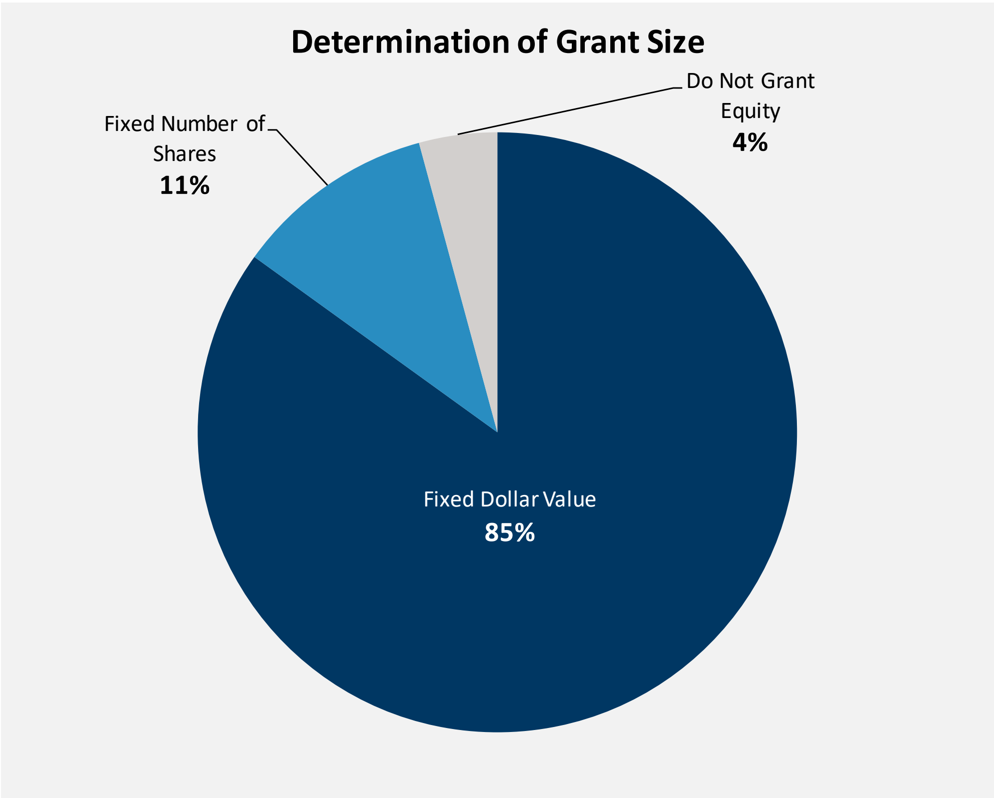
Equity Grants for Board Members

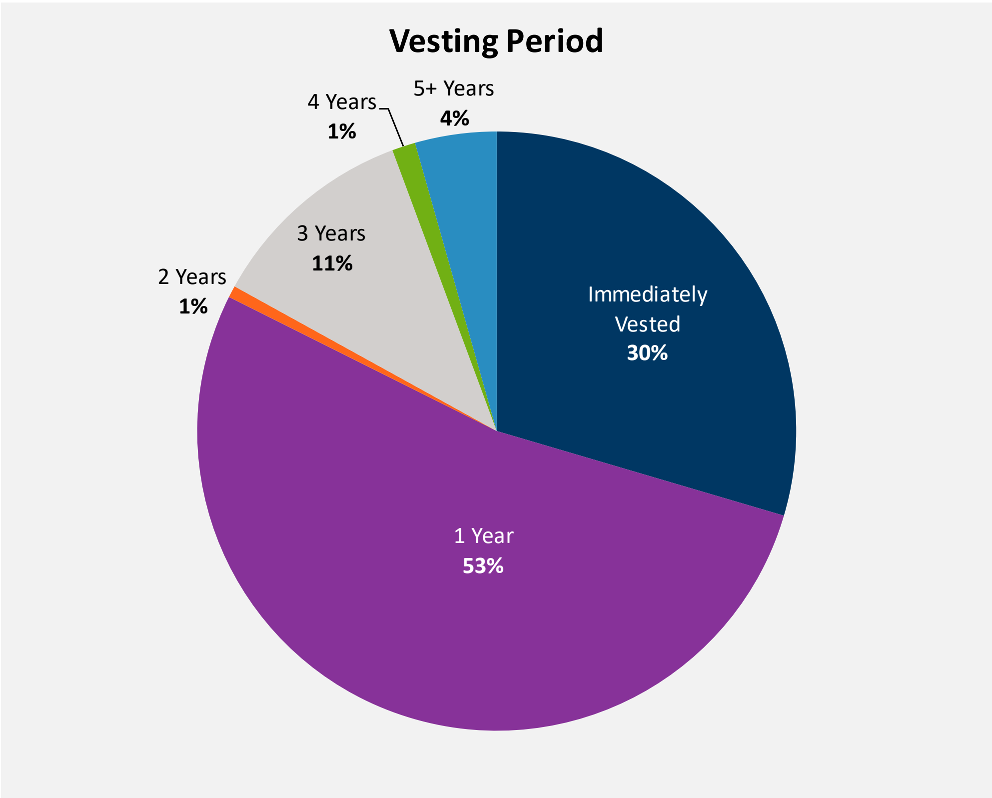
Equity is almost always delivered in full-value shares awarded under a fixed-dollar value formula as follows:

Approximately **95%** of REITs grant full-value shares

Only **4%** of REITs grant stock options

6 REITs did not grant any equity to their directors





Deferred Compensation for Board Members

Deferred Compensation Programs allow non-employee directors to voluntarily elect to defer all or a portion of their cash compensation (and sometimes equity compensation) until a later date

- Most common deferral date is upon retirement from the board (can also be a pre-determined future date)
- Deferral can be made into a (i) company stock unit account, (ii) alternative investment vehicles, such as those provided under the 401(k) plan or (iii) both

38% of REITs have a Deferred Compensation Program in place

Other Deferral Mechanisms

- Many REITs also allow directors to elect to receive company stock in lieu of cash retainers (deferring taxation only for any associated vesting period)
- **9% of REITs allow directors to receive OP/LTIP Units**, which act as a quasi-deferral given that OP units are not taxable until the unitholder elects to convert from a unit to a common share (does come with certain book-up risks but also provides for capital gains instead of ordinary income)

Benefits of Deferred Compensation

- Allows the recipient to delay payment of taxable income to a future date (at which time their tax rate may be lower)
- Allows equity awards to continue to receive dividend distributions and stock price appreciation (which is generally lost for any shares sold to settle tax obligations)

Board Compensation Scrutiny

ISS Director Compensation Policies

ISS will begin to issue adverse voting recommendations for "excessive" non-employee director ("NED") pay beginning in the 2020 proxy season

- Board members responsible for approving/setting non-employee director pay will receive against or withhold vote recommendations when there is a recurring pattern (i.e., 2 years) of excessive pay magnitude without a compelling rationale
- Excessive NED pay is defined by ISS as individual directors with pay above the top 2-3% of all non-employee directors in the same index and sector (with the same two-digit GICS group and the same index grouping)
- Directors in board level leadership positions (e.g., non-executive chairs and lead directors) will be compared to equivalent leadership positions
- Voting recommendations will only apply to the re-election of board members tasked with setting board compensation (will NOT impact Say-on-Pay voting recommendations)

Board Compensation Disclosure

Board compensation disclosure is expected to look more like a simplified version of executive compensation reporting and may include:

- Description of the company's director compensation philosophy and review process, including the use of any benchmarking or peer group comparisons
- Description of the program in terms of both dollar values and structure in a more tabular/bulleted format
- Rationale for director compensation changes
- Specific disclosure around non-executive chairs and lead director fees in conjunction with the additional time commitments and responsibilities of these positions

Board Gender Diversity

Female board representation is a growing and important trend in the both the REIT industry and broader public company market that continues to receive enhanced scrutiny and pressure, with 97% of investors[1] considering the lack of female directors on public company boards to be problematic

Beginning in 2020, ISS will generally issue an "Against" voting recommendations for nominating committee chairs (and potentially other members) at companies with no female directors unless certain mitigating factors apply

- A firm commitment in the proxy statement to appoint at least one female to the board in the near term ("near term" is not defined);
- The presence of a female on the board at the preceding annual meeting

Beginning in 2019, where a board has no female directors, Glass Lewis will generally recommend voting against the nominating committee chair. Depending on factors such as the company's size, industry and governance profile, Glass Lewis may also recommend voting against other nominating committee members

An article published by the WSJ highlighted the increased female representation in the REIT industry, including:[2]

- REITs added 60 new female board members (or 50.4% of the 119 new directors) vs. 43% on the newly elected directors of Russell 3000 companies
- Approximately 10% of REITs have no female representation
- Men account for 8 of every 10 REIT directors

For all public companies whose principal offices are in California:

- By the end of 2019, must have at least one female on the board
- By the end of 2021, larger boards must increase representation:
  - 6+ directors = min. of 3 females
  - 5 directors = min. of 2 females
  - 4 or less directors = min. of 1 female
- Companies not in compliance can be fined up to $300,000

[1]Source: ISS' 2018 Governance Principles Survey

[2]Source: Wall Street Journal "Old Boys' Club Gives Ground as More Women Join Real Estate Boards" on July 9, 2019

Additional Trends and Current Issues in Executive Compensation and Corporate Governance

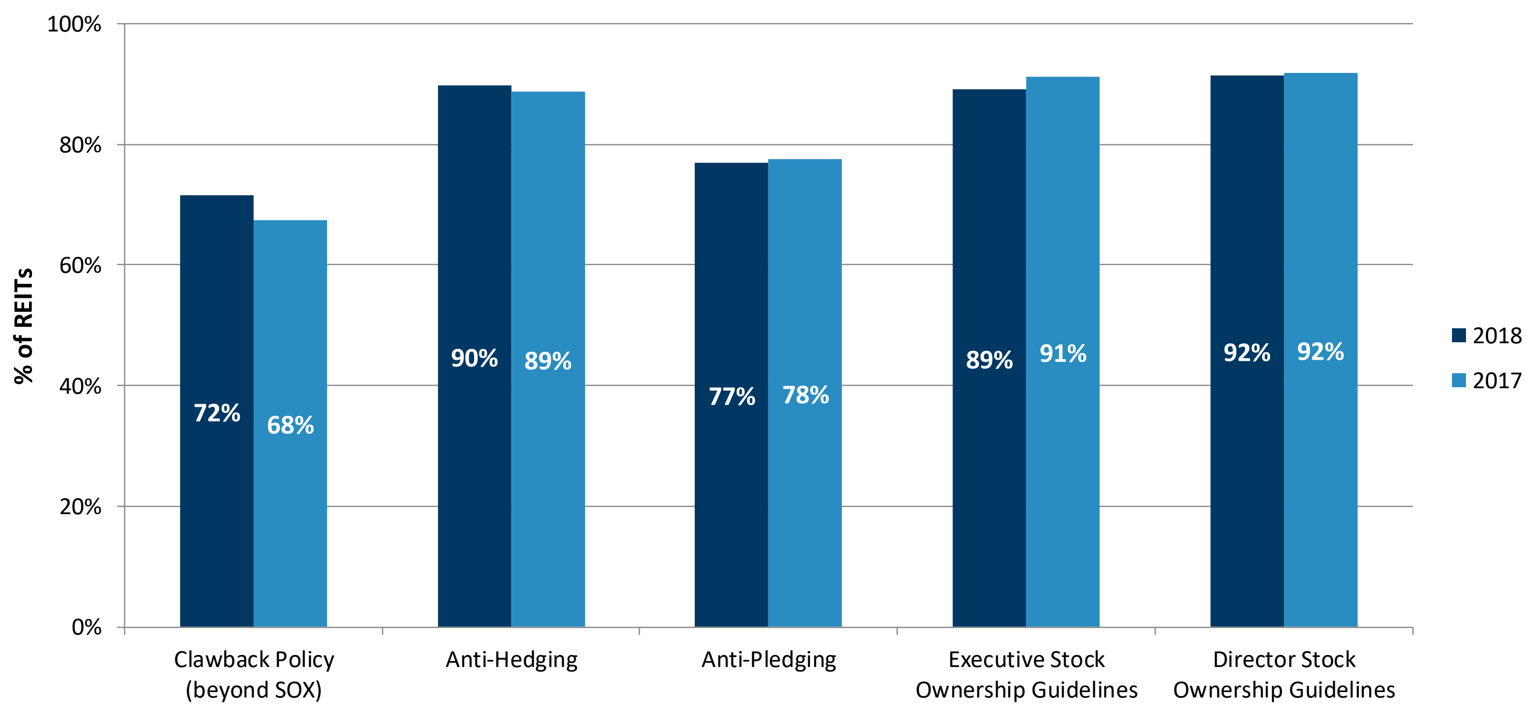
Corporate Governance-Related Compensation Policies

An increased focus on ESG by investors has resulted in more companies taking a fresh look at the governance policies tied to compensation

Clawback policies are being reviewed after years of delays awaiting Dodd-Frank requirements

Hedging and pledging policies and practices are now on the radar of investors

The prevalence of certain policies somewhat decreased among the sample due to changes in the company set year-over-year



Stock Ownership Policies

- Stock ownership guidelines are defined by a multiple of salary (or cash/equity retainer for board members):

Title	Multiple of Base Salary/Board Retainer									
	1x or Less	1.5x	2x	2.5x	3x	4x	5x	6x	8x	10x
CEO	0%	0%	0%	0%	6%	5%	36%	**44%**	1%	8%
COO	0%	0%	13%	0%	**67%**	5%	9%	6%	0%	0%
CFO	1%	1%	14%	1%	**69%**	8%	4%	2%	0%	0%
GC	5%	1%	21%	1%	**63%**	3%	3%	3%	0%	0%
Other Executives	2%	1%	20%	0%	**64%**	10%	3%	0%	0%	0%
Directors	1%	0%	2%	0%	32%	7%	**57%**	2%	0%	0%

- For boards of directors, 88% use the cash retainer, 5% use the equity retainer and 8% use both as the basis for the multiple
- 5 years is the most common grace period to meet requirements
- Approximately 40% of REITs have also implemented holding requirements in connection with stock ownership guidelines for executives (approximately 30% of REITs have also implemented holding requirements for directors)
  - Executives and directors are subject to a holding requirement, which require executives to hold 50% - 100% of equity compensation shares (on a post-tax basis) until ownership targets have been met
  - 4 REITs require that 25% to 50% of shares granted must be held until termination of employment

Hedging and Pledging-Related Policy Trends

Hedging Policy Trends

Following the finalization of the hedging disclosure requirements under the Dodd-Frank Act in December 2018, reviewing policies related to hedging by insiders have increased

- Public companies must disclose their hedging practices or policies in their annual proxies or information statements effective for fiscal years beginning on or after July 1, 2019 (July 2020 for smaller reporting companies)
- If the company does not have any practice or policy on hedging, the company must disclose that fact or state that hedging transactions are generally permitted (which will likely prompt those without policies to consider adopting beforehand)
- 3 REITs allow insiders to hedge but require Board approval
- New disclosure on hedging must be included in the corporate governance section

Pledging Policy Trends

ISS policy is to now recommend "Withhold" votes against the members of the relevant board committee or the entire board where a significant level of pledged company stock by executives or directors raises concerns absent mitigating factors

- ISS will consider factors such as a disclosed anti-pledging policy, the magnitude of the pledged stock, disclosure that ownership or holding requirements do not include pledged stock, and progress towards reducing the magnitude of pledging over time
- 33% of REITs with pledging-related policies do not include an absolute prohibition on pledging ("Partial Anti-Pledging" policies)
- Those with a Partial Anti-Pledging policy generally either limit the amounts of shares that may be pledged or require pre-approval by the Board

Proxy Disclosure Best Practices and Trends

Proxy Best Practices

- Ensure Effective Proxy Summary Messaging
- Reduce Text and Replace with More Visuals and Graphics
- Provide More Rationale Behind Compensation Decisions
- Improve Board Compensation Disclosure
- Enhance ESG Disclosure

Proxy Disclosure Trends

Some trends among S&P 500 Companies during the 2018 proxy season (which are generally consistent with REIT proxies)

- **46%** of companies include a board skills matrix (**up from 11% in 2015**)
- **56%** of companies include a table or graphic highlighting board diversity (**up from 20% in 2015**)
- **77%** of companies in the S&P 500 disclosed that they engaged with shareholders last year (**up from 56% in 2015**); conversation involved executive compensation, board composition and assessments, strategy, sustainability and cybersecurity
- **33%** disclosed that board members were involved (most frequently the lead director or compensation committee chair)

Source: Ernst and Young's 2018 Proxy Statements Report

CEO Pay Ratio

- The REIT industry has seen wide variation in pay ratios with ratios as low as 3:1 and as high as 477:1 (down from 567:1 last year)

	Lowest Ratio	Median Ratio	Highest Ratio
Diversified	6	45	150
Healthcare	9	52	145
Hotel & Resort	6	32	356
Industrial	8	46	244
Mortgage	5	23	99
Office	3	68	340
Residential	4	94	355
Retail	4	58	477
Specialized	9	96	418
All REITs	3	57	477

- In addition to the required pay ratio disclosure, 12 REITs disclosed supplementary CEO pay ratios (down from 14 in 2018)
  - Of the REITs who disclosed secondary pay ratios, approximately 40% adjusted the CEO's compensation (usually to exclude one-time awards) and 75% adjusted the employee population used to determined the median employee
  - 2 REITs adjusted both the CEO's compensation and the median employee
  - 1 REIT provided a secondary ratio that was higher than the primary ratio

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