OCTOBER 2017

2017 EXECUTIVE COMPENSATION REPORT:

REAL ESTATE INDUSTRY ANNUAL INCENTIVE PLAN PRACTICES

ANNUAL INCENTIVE PLAN PRACTICES FOR EXECUTIVES
AT THE TOP 150 REITS

EXPERTS WITH IMPACT ™

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Methodology

The FTI Consulting, Inc. Real Estate Industry Annual Incentive Plan (AIP) report provides an overview of annual incentive plan compensation practices at the top 150 publicly traded REITs. We believe that the top 150 REITs provide the best insight into current and emerging compensation trends, and accordingly, our report concentrates on these companies. Any reference to “REITs” only denotes the top 150 REITs included in the report.

The following information is based on our extensive review and analysis of compensation-related disclosure obtained through public documents filed with the Securities and Exchange Commission. FTI Consulting specifically has analyzed annual incentive information based on the most forward-looking pay packages for the Named Executive Officers (NEO) disclosed within the most recently filed proxy statements, plus any subsequent materials filed in a Form 8-K. Our goal is to provide the most timely and accurate information available for a more in-depth understanding of the AIP structure and design used among public REITs.

The top 150 REITs were determined based on December 31, 2016 total capitalization. Total capitalization includes the value of common shares and operating partnership (OP) units (i.e., equity market capitalization), plus debt and the book value of any preferred shares, with the following modifications to the constituent list:

- Excludes externally managed companies that do not directly compensate their NEOs;
- Excludes any IPOs, spinoffs or REIT conversions that were completed after June 30, 2016; and
- Includes select real estate companies that have not elected to qualify for REIT status for tax purposes but whose operations are comparable to other REITs (e.g., Hyatt Hotels Corporation and The Howard Hughes Corporation).

Executive Summary and Key Findings

Short-term annual incentive plans are generally the second largest compensation vehicle for senior executives, accounting for approximately 25% of compensation at the median in 2016. AIPs, generally payable in cash, are designed to reward employees for annual performance relating to key operational and financial measures, as well as individual performance and significant non-financial achievements. This report provides a summary of the design practices and structure trends of AIPs at the top 150 REITs. Key findings from our report include:

- The continued decline in discretionary plans and reduction in the number of metrics used is representative of a growing AIP “simplification” trend. Increased scrutiny from large investors and proxy advisory firms that may question a company’s interpretation of discretionary performance has led to an emphasis on eliminating ambiguity in AIPs.
- Discretionary plan usage is falling (down 12% since 2012), while use of formulaic plans is increasing (up 15% since 2012).
- Most REITs (77%) still utilize between two and five metrics for measurement of the AIP; however, the number of companies using seven or more metrics declined year-over-year.
- Adjusted Funds from Operations (AFFO) and Same Store Net Operating Income are the most popular metrics, utilized in 54% and 30% of AIPs, respectively.
- At median, regardless of metric type, performance ranges are 94% of the target goal at threshold and 111% at maximum.
- CEO target AIP is 130% of base salary at the median - 30% higher than the median COO, CFO and CIO (each at 100% of base salary).
- Payout leverage most often ranges from 50% at threshold to 200% at maximum (as a percent of each executive’s target bonus).

Types of Annual Incentive Plans

Description of Annual Incentive Plan Types

Formulaic Plans: Formulaic plans consist exclusively of corporate performance metrics, (i.e., FFO, EBITDA, Return Metrics, etc.). Such plans do not incorporate any discretionary or subjective components.

Discretionary Plans: Discretionary plans, in contrast, are based on the discretion of the Compensation Committee. Some discretionary plans specify certain corporate metrics that influence the discretionary payout; however, the bonus is not tied to specific performance hurdles but rather a subjective evaluation. Additionally, a subjective evaluation can be made based on non-disclosed factors or individual executive performance.

Formulaic with a Subjective Component: Formulaic plans with a subjective component are similar to traditional formulaic plans; however, a portion of the bonus is discretionary and tied to a subjective evaluation. For example, the most prevalent allocation was 75% based on formulaic corporate measures and 25% based on subjective measures.

Formulaic Bonus Pool: Although only 11 out of the top 150 REITs utilize such a structure, in general, this type of AIP is designed as a company-wide bonus pool that is calculated using a pre-determined formula (often based on a set percentage of EBITDA, net income, FFO, etc.). Allocations of the bonus pool can be pre-determined or determined on a discretionary basis. Bonus pool companies are included in the “entirely formulaic” or “formulaic with a subjective component” categories based on pool design.

Plan Type	2012	2013	2014	2015	2016
Entirely Discretionary	25%	22%	16%	18%	13%
Entirely Formulaic	10%	14%	14%	17%	25%
Formulaic with a Subjective Component	65%	63%	70%	65%	62%

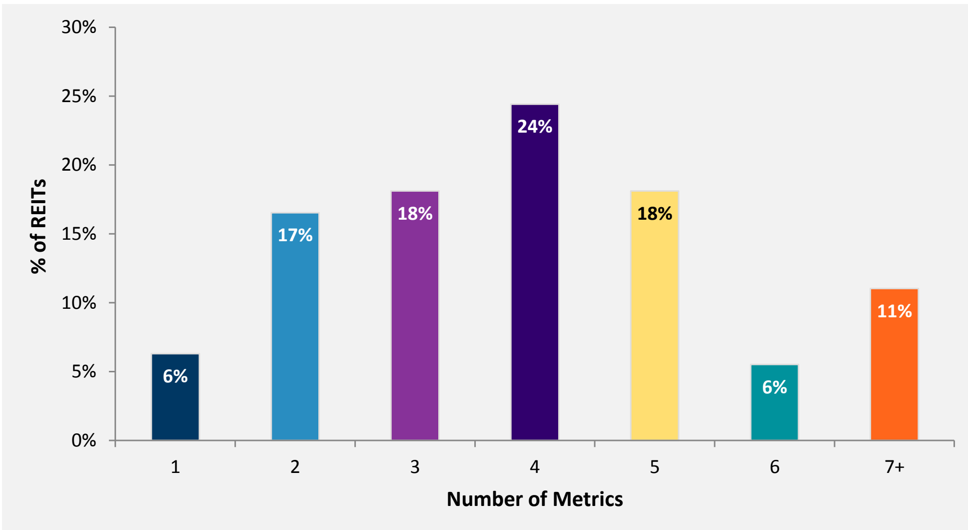
The use of strictly discretionary programs has generally declined over the past couple of years, although there was a slight uptick from 2014 (16%) to 2015 (18%). Proxy advisory firms, e.g. Institutional Shareholder Services (ISS), continue to view such programs with skepticism and increased scrutiny. Generally, discretionary programs are considered more appropriate for recent IPOs or small-cap companies. Increased reliance on formulaic bonus metrics is thought to improve transparency and is typically considered best practice. In contrast to the declining trend in discretionary programs, the use of formulaic measures has increased from 2012, likely in reaction to institutional shareholder advisory group’s preference that AIPs be tied to formulaic measurable goals both with and without subjective components. In 2016, 87% of AIPs included some level of formulaic measure, up from 75% in 2012.

In 2016, there was a sharp rise (8%) in the number of companies using entirely formulaic programs, likely in an attempt to remove the perceived presence of ambiguity when interpreting discretionary goals. Twenty-five percent of companies used entirely formulaic plans in 2016, compared to 17% in 2015. The increase in formulaic plans came almost exclusively at the expense of entirely discretionary plans - the use of purely discretionary programs declined 5% from 2015 to 2016.

Number and Type of Metrics Used

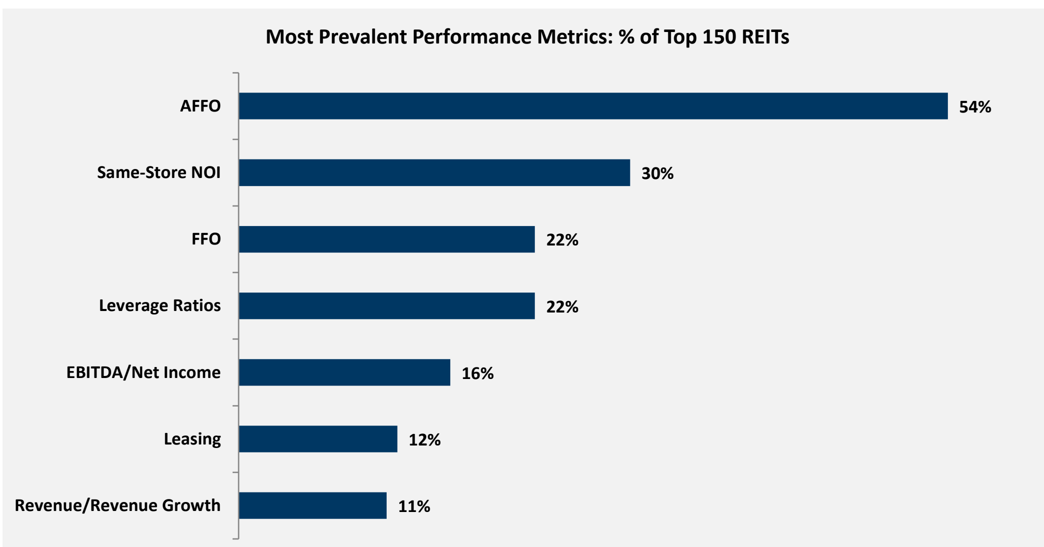
Number of Metrics Used

Based on the AIP design for the CEO, most REITs used between two and five metrics, as shown in the table below. Companies aim to balance using too few metrics, which may motivate excessive risk-taking, and focusing management on key business objectives. The median number of metrics used is four, although approximately one out of every nine companies (11%) used seven or more metrics (a decrease from one out of every seven, or 14%, last year).



Types of Metrics Used

The most commonly used performance measures for REITs include the following:



FFO- and AFFO-centered metrics (i.e. FFO/Share, AFFO, etc.) are most predominant as those measures are generally considered to be the best indicator of REIT performance. AFFO usage increased 22% compared to 2015; however, a portion of this shift can be attributed to increased transparency in describing the usage of non-GAAP-defined FFO measures, which our report classifies as AFFO. Previous disclosure may have failed to properly describe the metric, resulting in classification as FFO although it was adjusted for various items. Corresponding with the AFFO increase, GAAP-defined FFO usage declined 12% from 2015.

Performance Range (as a Percentage of Target Goal), Target Bonus Percentage and Payout Leverage

Performance Metric Range

Setting appropriate threshold, target, and maximum hurdles for AIP metrics is a crucial element of effective plan design. As shown in the table below, the median performance range as a percent of target was 94%, while the maximum was 111%. Setting appropriate performance ranges is largely dependent on the type of metric being used, the perceived difficulty of the budgeted/target measure and historical performance/data.

Metric Leverage	Threshold	Maximum
Typical "Wide" Performance Range	75%	126%
Median	94%	111%
Typical "Narrow" Performance Range	97%	103%

Target Bonus Percentage and Payout Leverage

Target bonus percentages are commonly used throughout the REIT industry as a means of providing an expectation of what an executive will earn for achieving target level performance. Most REITs provide payout leverage above and below target opportunity as a means of recognizing exceptional and acceptable performance, respectively. The minimum payout leverage as a percent of base salary ranges from 46% to 67%, while the maximum payout leverage ranges from 150% to 225%, based on position.

	Median AIP Opportunity as % of Salary					
Position	Minimum ($)	Minimum (%)	Target ($)	Target (%)	Maximum ($)	Maximum (%)
Chief Executive Officer	$447,281	67%	$1,000,000	130%	$1,681,031	225%
Chief Operating Officer	250,000	50%	500,000	100%	791,813	171%
Chief Financial Officer	189,000	50%	413,438	100%	675,000	150%
Chief Investment Officer	200,000	50%	424,625	100%	758,000	180%
General Counsel	162,500	47%	325,000	88%	559,125	150%
Other Executives	138,875	46%	350,000	95%	556,250	150%

When leverage is viewed as a percent of target, the most commonly utilized payout leverage for all positions (except "Other" executives) is 50% at minimum and 200% at maximum. Target bonus as a percent of base salary ranges from 115% to 150% between the 25th and 75th percentiles for the CEO, with lower ranges for other positions as illustrated in the table below.

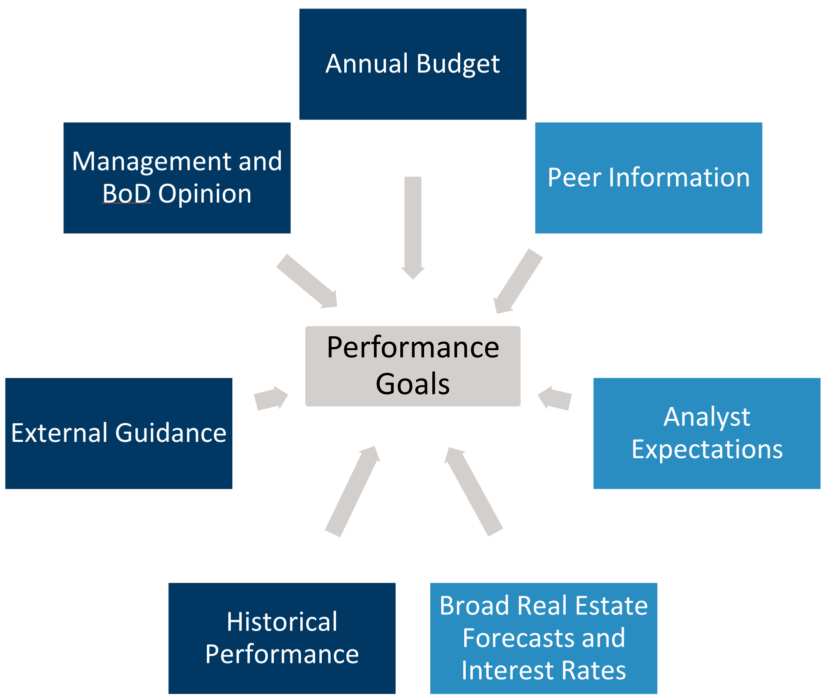
	Target Bonus % Range	Most Common Payout Leverage as a % of Target	
Position	% of Salary	Minimum	Maximum
Chief Executive Officer	115% - 150%	50%	200%
Chief Operating Officer	90% - 120%	50%	200%
Chief Financial Officer	80% - 100%	50%	200%
Chief Investment Officer	90% - 125%	50%	200%
General Counsel	75% - 100%	50%	200%
Other Executives	75% - 100%	50%	150%

Setting Performance Targets

Effective performance goals should be both meaningful and achievable.

- Meaningful goals are aligned with shareholder value expectations and provide sufficient stretch (especially for payouts above target).
- Achievable goals are reasonable given current market conditions and are perceived as attainable to plan participants (especially at the threshold level).

The combination of both *internal perspective* and *external factors* in setting appropriate goals represents the most balanced approach.



Scrutiny on Goal Setting

There has been a noticeable shift in the focus of investors and proxy advisory firms (such as ISS). Until recently, the majority of comments and scrutiny were aimed at AIP design, as the following questions were most often asked regarding AIPs:

- Is the annual incentive plan formulaic or discretionary?
- How much of the formulaic plan was determined based on subjective and/or individual performance goals?

During the last two proxy seasons, there has been a notable increase in the comments and questions from investors and ISS on the goal setting process:

- How often has the annual incentive plan paid out above target?
- What is the process for setting performance goals?
- What is the performance range?
- Does the plan allow for payouts above target for performance below the median of the peer group?

Outlook

Trends that we expect to influence AIP compensation over the short- and potentially long-term period include the following:

- AIP "simplification" will likely continue. Increased scrutiny from investors and proxy advisory firms over the ambiguity of discretionary plans (i.e., how did your interpretation of discretionary performance lend itself to an AIP payout recommendation?) as well as needlessly complex formulaic plans (too many metrics, unclear description, etc.) has resulted in a continued shift towards well-defined formulaic plans. Newly public REITs will often consider using discretionary AIPs due to the difficulty in setting goals, though once more mature (e.g., after one or two bonus cycles) formulaic measures are typically introduced.

- The discussion of quality over quantity in the use of AIP metrics will likely be emphasized moving forward. Balancing the importance of measuring key metrics (i.e., quality) while avoiding the practice of becoming overly granular (i.e., quantity) should play a more significant role in AIP design.

- We expect continued growth in plan transparency, both from a structure perspective and the definition of the metrics being used (as evidenced dramatically in the description of AFFO vs. GAAP FFO).

- For the second consecutive year, we expect the median number of metrics (four in 2016) and type of metrics being utilized to remain relatively constant. Using four metrics often appropriately balances the need to motivate certain behaviors without becoming overly granular. The number of REITs using greater than seven metrics is likely to further decrease.

- AFFO, FFO, Same-Store NOI and Leverage metrics will continue to serve as barometers of REIT performance; continued short-term success when utilizing these metrics often translates into long-term value.

- As mentioned last year, the relationship between performance range and payout leverage will continue to be a conversation that highlights many AIP structure-design conversations. AIP design should continue to see an increased focus on what constitutes exceptional performance versus acceptable performance, how that compares to peers and most importantly, what executives will earn at those performance levels.

List of the Top 150 REITs

- Acadia Realty Trust
- AGNC Investment Corp.
- Agree Realty Corporation
- Alexandria Real Estate Equities, Inc.
- American Assets Trust, Inc.
- American Campus Communities, Inc.
- American Homes 4 Rent
- American Tower Corporation
- Apartment Investment and Management Company
- Apple Hospitality REIT, Inc.
- AvalonBay Communities, Inc.
- Boston Properties, Inc.
- Brandywine Realty Trust
- Brixmor Property Group Inc.
- Camden Property Trust
- Capstead Mortgage Corporation
- Care Capital Properties, Inc.
- CareTrust REIT, Inc.
- CBL & Associates Properties, Inc.
- Cedar Realty Trust, Inc.
- Chatham Lodging Trust
- Chesapeake Lodging Trust
- Chimera Investment Corporation
- Colony Starwood Homes
- Columbia Property Trust, Inc.
- CoreCivic, Inc.
- CoreSite Realty Corporation
- Corporate Office Properties Trust
- Cousins Properties Incorporated
- Crown Castle International Corp.
- CubeSmart
- CyrusOne Inc.
- CYS Investments, Inc.
- DCT Industrial Trust Inc.
- DDR Corp.
- DiamondRock Hospitality Company
- Digital Realty Trust, Inc.
- Douglas Emmett, Inc.
- Duke Realty Corporation
- DuPont Fabros Technology, Inc.
- Dynex Capital, Inc.
- EastGroup Properties, Inc.
- Education Realty Trust, Inc.
- Empire State Realty Trust, Inc.
- EPR Properties
- Equinix, Inc.
- Equity Commonwealth
- Equity LifeStyle Properties, Inc.
- Equity Residential
- Essex Property Trust, Inc.
- Extra Space Storage Inc.
- Federal Realty Investment Trust
- FelCor Lodging Trust Incorporated
- First Industrial Realty Trust Inc.
- First Potomac Realty Trust
- Forest City Realty Trust, Inc.
- Four Corners Property Trust, Inc.
- Franklin Street Properties Corp.
- Gaming and Leisure Properties, Inc.
- The GEO Group, Inc.
- GGP Inc.
- Gramercy Property Trust, Inc.
- Hannon Armstrong Sustainable Infrastructure Capital, Inc.
- HCP, Inc.
- Healthcare Realty Trust Incorporated
- Healthcare Trust of America, Inc.
- Hersha Hospitality Trust
- Highwoods Properties, Inc.
- Host Hotels & Resorts, Inc.
- The Howard Hughes Corporation
- Hudson Pacific Properties, Inc.
- Hyatt Hotels Corporation
- Iron Mountain Incorporated
- iStar Inc.
- Kilroy Realty Corporation
- Kimco Realty Corporation
- Kite Realty Group Trust
- Ladder Capital Corp
- Lamar Advertising Company
- LaSalle Hotel Properties
- Lexington Realty Trust
- Liberty Property Trust
- Life Storage, Inc.
- LTC Properties, Inc.
- The Macerich Company
- Mack-Cali Realty Corporation
- Medical Properties Trust, Inc.
- MFA Financial, Inc.
- MGM Growth Properties LLC
- Mid-America Apartment Communities, Inc.
- Monmouth Real Estate Investment Corporation
- Monogram Residential Trust, Inc.
- National Health Investors Inc.
- National Retail Properties, Inc.
- National Storage Affiliates Trust
- New York Mortgage Trust, Inc.
- Omega Healthcare Investors, Inc.
- Outfront Media Inc.
- Paramount Group, Inc.
- Pebblebrook Hotel Trust
- Pennsylvania Real Estate Investment Trust
- Physicians Realty Trust
- Piedmont Office Realty Trust, Inc.
- Potlatch Corporation
- Prologis, Inc.
- PS Business Parks, Inc.
- Public Storage
- QTS Realty Trust, Inc.
- Quality Care Properties, Inc.
- RAIT Financial Trust
- Ramco-Gershenson Properties Trust
- Rayonier Inc.
- Realty Income Corporation
- Redwood Trust, Inc.
- Regency Centers Corporation
- Retail Opportunity Investments Corp.
- Retail Properties of America, Inc.
- Rexford Industrial Realty, Inc.
- RLJ Lodging Trust
- Ryman Hospitality Properties, Inc.
- Sabra Health Care REIT, Inc.
- Saul Centers Inc.
- SBA Communications Corporation
- Seritage Growth Properties
- Simon Property Group, Inc.
- SL Green Realty Corp.
- Spirit Realty Capital, Inc.
- STAG Industrial, Inc.
- STORE Capital Corporation
- Summit Hotel Properties, Inc.
- Sun Communities, Inc.
- Sunstone Hotel Investors, Inc.
- Tanger Factory Outlet Centers, Inc.
- Taubman Centers, Inc.
- Terreno Realty Corporation
- TIER REIT, Inc.
- UDR, Inc.
- Uniti Group Inc.
- Urban Edge Properties
- Urstadt Biddle Properties Inc.
- Ventas, Inc.
- VEREIT, Inc.
- Vornado Realty Trust
- W. P. Carey Inc.
- Washington Prime Group Inc.
- Washington Real Estate Investment Trust
- Weingarten Realty Investors
- Welltower Inc.
- Weyerhaeuser Co.
- Xenia Hotels & Resorts, Inc.

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FTI Consulting Executive Compensation and Corporate Governance Solutions provides objective advice to design and implement a comprehensive executive compensation program that attracts and retains top talent by effectively rewarding and motivating management and employees for the right kind of performance. This results in closely aligning the interests of employees with those of the company's shareholders and investors. Our dedicated team has practical hands-on experience partnering with compensation committees and management teams to design custom-tailored compensation programs around the key drivers and unique dynamics of each client. We have served as the compensation consultants and corporate governance advisors to more than 100 public and private companies on a range of compensation and corporate governance related matters, including:

Executive Compensation and Corporate Governance Solutions	
Compensation Plan Design and Implementation Services	Corporate Governance Services
• Annual compensation program and peer group review • Annual bonus program design • Long-term compensation program design • Employment agreement review and analyses • Proxy drafting and shareholder outreach support • Equity incentive plan review and upsizing • Compensation tax and accounting consulting services	• Corporate governance diagnostic • Compensation-related risk assessments • Board and executive performance evaluations • Succession planning guidance

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About FTI Consulting

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