FTI CONSULTING

2018 EXECUTIVE COMPENSATION REPORT:

REAL ESTATE INDUSTRY ANNUAL INCENTIVE PLAN PRACTICES

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 publicly-traded REITs and those 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). We believe that these REITs provide the best insight into current and emerging compensation trends within the real estate industry, and accordingly, our report concentrates on these companies. Any reference in this report to "REIT(s)" only denotes the REITs included in the study. Note that any reference to the plan structure is specific to the CEO, although most annual incentive plans are generally structured similarly (unless otherwise stated) for the other Named Executive Officers ("NEOs").

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 has specifically analyzed annual incentive plan information based on the most forward-looking pay packages disclosed within the most recently filed proxy statements, plus any subsequent materials filed in a Form 4 or Form 8-K. Our goal is to provide the most timely and accurate information available for a more in-depth understanding of the AIP vehicles used in the real estate industry.

Description of Annual Incentive Plan Types

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

<u>Discretionary Plans:</u> Discretionary plans, in contrast, are based on the subjective assessment 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.

<u>Formulaic with a Subjective Component:</u> 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 and are commonly referred to as a "balanced scorecard approach".

<u>Formulaic Bonus Pool:</u> 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. Given that only 11 out of the top 160 REITs utilize such a structure, bonus pool companies were sorted into the "entirely formulaic", "formulaic with a subjective component" or discretionary categories based on pool design for the purposes of this study.

Executive Summary and Key Findings

Short-term annual incentive plans are generally the second largest compensation vehicle for senior executives, accounting for approximately 24% of compensation on average in 2017. 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. Key findings of our study include:

75% of REITs utilize between **two and five metrics** for measurement of the AIP

Discretionary plan usage increased (up 9% since 2016), while use of formulaic plans "decreased" (down 5% since 2016). The increase in the use of discretionary plans is largely a result of newly formed REITs entering the marketplace and more mature REITs being acquired, and not a result of companies switching from formulaic to discretionary plans

The percent of REITs **using seven or more metrics continues to decline** (down to **9%**, from **14%** in 2015)

Formulaic with a Subjective Component cash incentive plans continue to be the **most commonly utilized** plan design

Core or Normalized Funds from Operations **(FFO),** Adjusted Funds from Operations **(AFFO)** and **Same-Store Net Operating Income are the most popular metrics**, utilized in **32%**, **30%** and **30% of AIPs, respectively**

Performance goals generally range from **93%** of the target goal at threshold and **112%** at maximum (at the median)

150% is the CEO **median Target AIP** as a **% 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)

For **Formulaic plans with a subjective component, 80%** allocation to objective, corporate measures and **20%** to discretionary or subjective measures remains the most frequently utilized allocation

The **median cash bonus payout** as a **% of target** was **123% in 2017 versus 129% in 2016**

Types of Annual Incentive Plans

Annual Incentive Plan Types

Plans structured as Formulaic with a Subjective Component (or a “Balanced Scorecard” approach) continue to be the most commonly utilized plan design and were used by 58% of REITs in 2017. This approach is often viewed as the most balanced due to the fact that a large portion of the payout is tied to objective, pre-established goals (which provides investors and employees transparency), while also providing the Compensation Committee the flexibility to adjust payouts based on other subjective goals and unexpected priorities. The most frequently used weightings for these types of plans were 80% objective, corporate measures and 20% discretionary or subjective measures.

Through 2013 – 2016 the use of entirely discretionary programs generally declined, although there was a slight uptick from 2014 (16%) to 2015 (18%). In contrast to the trend established during 2013 – 2016, entirely discretionary programs increased by 9% in 2017.

The sudden increase in discretionary plan utilization in 2017 can largely be attributed to newly formed REITs entering the marketplace and more mature REITs being acquired, and not a result of companies switching from formulaic to discretionary plans. Despite the notable increase in discretionary program utilization, 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.

Despite the recent increase in discretionary programs, the use of formulaic measures overall has slightly increased from 2013, likely in reaction to institutional shareholder advisory groups’ preference that AIPs be tied to formulaic measurable goals both with and without subjective components. In 2017, 78% of AIPs included some level of formulaic measure.

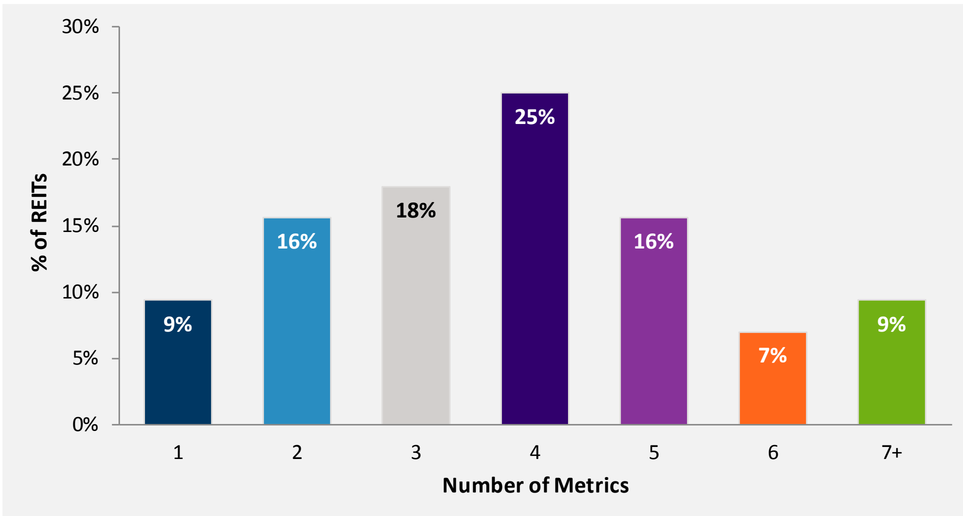
Plan Type*	2013	2014	2015	2016	2017
Entirely Discretionary	22%	16%	18%	13%	22%
Entirely Formulaic	14%	14%	17%	25%	20%
Formulaic with a Subjective Component	63%	70%	65%	62%	58%

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

Number and Type of Metrics Used

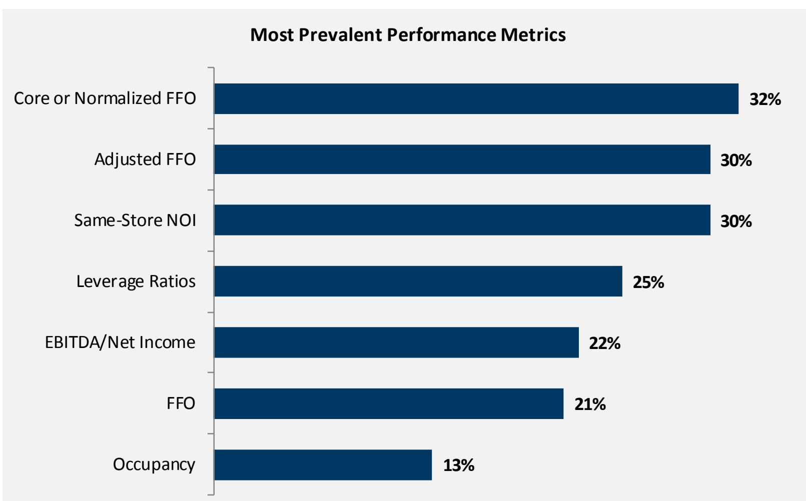
Number of Metrics Used

Based on the AIP design for the CEO, most REITs (75%) 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 9% used seven or more metrics (a decrease from one out of every nine, or 11%, last year):



Types of Metrics Used

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



FFO-centered metrics are the most predominantly used metrics in the REIT industry as those measures are generally considered to be the best indicator of REIT performance. Recent disclosure improvements provide greater clarity on the types of FFO metrics being used, with some companies using Core or Normalized FFO, and/or Adjusted FFO ("AFFO") as opposed to NAREIT-defined FFO. Core or Normalized FFO is FFO only for same-store properties year-over-year, with non-recurring events excluded. AFFO has adjustments made for recurring capital expenditures. Additionally, both EBITDA/Net Income (from 16% in 2016 to 22% in 2017) and Occupancy metrics (from 10% in 2016 to 13% in 2017) have grown noticeably in utilization.

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 93%, while the maximum was 112%. This data was largely unchanged year over year. 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	71%	125%
Median	93%	112%
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 threshold payout leverage as a percent of base salary ranges from 28% to 50%, while the maximum payout leverage ranges from 128% to 200%, based on position. Both threshold and maximum leverage ranges were down slightly year over year, while target levels have remained relatively flat year over year.

	Median AIP Opportunity as % of Salary					
Position	Threshold ($)	Threshold (%)	Target ($)	Target (%)	Maximum ($)	Maximum (%)
Chief Executive Officer	$402,219	50%	$1,062,500	150%	$1,600,000	200%
Chief Operating Officer	177,500	41%	486,650	100%	690,000	150%
Chief Financial Officer	173,813	39%	431,555	100%	642,375	150%
Chief Investment Officer	176,750	43%	435,000	100%	728,423	162%
General Counsel	157,853	40%	337,500	86%	545,288	150%
Other Executives	96,900	28%	382,949	95%	487,688	128%

When leverage is viewed as a percent of target, the most commonly utilized payout leverage for all positions is 50% at threshold and 200% at maximum (remaining relatively flat year over year). Target bonus as a percent of base salary ranges from 120% to 170% 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	Threshold	Maximum
Chief Executive Officer	120% - 170%	50%	200%
Chief Operating Officer	90% - 125%	50%	200%
Chief Financial Officer	80% - 110%	50%	200%
Chief Investment Officer	90% - 125%	50%	200%
General Counsel	75% - 100%	50%	200%
Other Executives	70% - 100%	50%	200%

Performance Goal Determination

"You get what you incent", a mantra that often rings true for those involved in the process of determining effective short-term performance goals. The establishment of meaningful and achievable performance goals in combination with a greater strategic conversation continues to become more relevant. Setting goals that do not align with a strategic vision or establishing goals that may be perceived as perverse can directly impact the health of a company or even worse can become headlines for the wrong reasons. When determining performance goals, it is important to be mindful of the following:

- 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).
- Strategic goals align with a larger vision and promote short- and long-term company health.

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

Communication of Performance Goals with Executives

Executive management is tasked with establishing a strategic vision and framework for the companies they lead. Compensation committees are tasked with creating an annual incentive plan (along with other elements of compensation) that aligns with that vision. Although it may seem obvious in theory, in practice the alignment of strategy and pay is much more complicated. The interaction and communication between executive management and the compensation committee is as important now as ever, as proper annual incentive plan alignment and effective, clear communication can be pivotal factors in the health and culture of a company. Communication, culture and the effects on the health of a company are becoming more prevalent topics in the board room as many companies have shifted from a reactive posture to proactive given the years of scrutiny on executive pay. Compensation committees should not overlook the importance of interacting with their executive team to ensure everyone is "pulling in the same direction".

Outlook

Trends that we expect to affect AIP program design over the next couple of years 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, as evidenced by the slight increase in their utilization upon the inclusion of new IPOs and smaller REITs in this study, 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 in the description of Core/Normalized FFO vs. AFFO vs. NAREIT-defined FFO).

- "Rigor of Performance Goals" was cited by ISS as an area of concern for 67% of REITs that received an Against Say-on-Pay voting recommendation. Accordingly, we anticipate that companies that will continue to enhance proxy disclosure as it relates to both why each metric was selected, and the process used to establish the goals for threshold, target and maximum payouts.

- For the third consecutive year, we expect the median number of metrics (four in both 2016 and 2017) 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.

- Core/Normalized FFO, 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.

- Communication and strategic alignment between the compensation committee and executive management will likely continue to increase as many companies are shifting gears from being reactive to shareholders and shareholder advisory groups to proactive in their approaches in establishing a link between pay, performance and strategy.

List of REITs Included in the Report

Acadia Realty Trust
AGNC Investment Corp.
Agree Realty Corporation
Alexander & Baldwin, Inc.
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.
Arbor Realty Trust, Inc.
Armada Hoffler Properties, Inc.
AvalonBay Communities, Inc.
Bluerock Residential Growth REIT, Inc.
Boston Properties, Inc.
Brandywine Realty Trust
Brixmor Property Group Inc.
BRT Apartments Corp.
Camden Property Trust
Capstead Mortgage Corporation
CareTrust REIT, Inc.
CatchMark Timber Trust, Inc.
CBL & Associates Properties, Inc
Cedar Realty Trust, Inc.
Chatham Lodging Trust
Chesapeake Lodging Trust
Chimera Investment Corporation
Chrysalis VCT PLC
City Office REIT, Inc.
Clipper Realty Inc.
Colony Capital, Inc.
Columbia Property Trust, Inc.
CoreCivic, Inc.
CoreSite Realty Corporation
Corporate Office Properties Trust
Cousins Properties Incorporated
Crown Castle International Corp.
CubeSmart
CyrusOne Inc.
DCT Industrial Trust Inc.
DDR Corp.
DiamondRock Hospitality Company
Digital Realty Trust, Inc.
Douglas Emmett, Inc.
Duke Realty Corporation
Dynex Capital, Inc.
Easterly Government Properties, 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.
Farmland Partners Inc.
Federal Realty Investment Trust
First Industrial Realty Trust, Inc.
Forest City Realty Trust, Inc.
Four Corners Property Trust, Inc.
Franklin Street Properties Corp.
Gaming and Leisure Properties, Inc.
The GEO Group, Inc.
Getty Realty Corp.
GGP Inc.
Gramercy Property Trust
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
Invitation Homes Inc.
Iron Mountain Incorporated
iStar Inc.
JBG Smith Properties
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.
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
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.
Park Hotels & Resorts Inc.
Pebblebrook Hotel Trust
Pennsylvania Real Estate Investment Trust
Physicians Realty Trust
Piedmont Office Realty Trust, Inc.
PotlatchDeltic Corporation
Prologis, Inc.
PS Business Parks, Inc.
Public Storage
Quality Care Properties
QTS Realty Trust, Inc.
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.
UMH Properties, 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 Company
Whitestone REIT
Xenia Hotels & Resorts, Inc

About FTI Consulting Executive Compensation and Corporate Governance Practice

The Executive Compensation and Corporate Governance practice at FTI Consulting has the unique capability to advise clients on both complex and routine compensation and other strategic matters by leveraging our in-depth knowledge of the real estate industry and the issues directly impacting REITs. Our team of professionals has experience providing practical guidance on deal structuring, tax structuring, value-add governance changes and implementing compensation programs that are aligned with each REIT's strategic plan and reward employees for creating tangible value.

Our services include:

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

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About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. For more information, visit www.fticonsulting.com and connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.