



The Early 30

Compensation Trends from the First 30 Filed REIT Proxy Statements and Notable REIT Compensation Highlights

FTI Consulting, Inc. has analyzed executive pay levels for the first 30 self-managed REITs that filed their proxy statements in 2019, excluding those without comparable year-over-year data. The following provides a sneak peek of REIT compensation trends based on the analysis of Early 30 REIT filers and additional compensation highlights from the REIT sector. Although the figures below will likely change for the larger REIT population, trends from the Early 30 filers provide an initial indication of overall executive compensation trends in the REIT industry.

Compensation Trends at the Early 30

Initial trends for the 2019 REIT proxy season, in comparison to the 2018 REIT Early 30, are notable for larger increases in CEO compensation (5.3% in 2019 vs. 3.3% in 2018) and smaller increases overall (5.7% for all NEOs in 2019 vs. 8.3% in 2018). 2019 increases were fairly balanced between cash and LTI compensation, with increases of 6.3% and 5.5%, respectively. These increases represent a meaningful change in how REITs allocated additional pay, as 2018 included a modest 1.4% increase in cash but a 14.8% increase in LTI compensation. Executive Chair compensation continues to decrease as the narrative around the value that this role provides to a company is getting more attention, particularly from investors. It is largely believed that while the Executive Chair role provides significant value during transitional periods, over the longer term, compensation for this role should be reduced as the broader executive management team gains experience and expands its relationships.

Additional Compensation Highlights

<p>5.3% Increase in CEO Compensation</p> <p>Approximately 70% of CEOs received a pay increase</p>	<p>5.5% Increase in LTI Compensation</p>
<p>5.7% Increase in Overall NEO Compensation</p> <p>CFOs received the largest pay increases at 10.4%</p>	<p>12.6% Decrease in Executive Chair Compensation</p>
<p>6.3% Increase in Cash Compensation</p>	<p>57:1 Median CEO Pay Ratio (unchanged from 2018)</p> <p>CEO pay ratios ranged from 3:1 at their low end to 369:1 at the high end</p>

Note: Statistics are based on the median change.

In our review of the REIT proxy statements filed as of early May 2019, FTI Consulting also observed several noteworthy compensation highlights at select REITs (including the Early 30).

CEO Compensation

- **Uniti Group Inc.**

The CEO was awarded a total formulaic cash bonus of \$1,419,500. However, considering the CEO's "recommendations regarding bonuses for other employees," as stated in the proxy, he declined to accept \$750,000 of his cash bonus, which was reallocated and distributed to the broader employee group.

- **Cedar Realty Trust, Inc.**

Long-term incentive compensation is structured such that the CEO does not receive regular annual equity grants, and the company presumably takes the view that the equity award is designed to "cover" a multi-year period (the most recent CEO equity grant was in 2011). In 2018, his 2011 grants concluded, and he received a new equity grant in connection with his renewed employment agreement. The aggregate value was approximately \$9 million, consisting of time-based shares that vest on the fifth anniversary of grant and performance-based RSUs (with dividend equivalent rights) that are earned based on five-year absolute TSR performance. Despite the practical intention of covering a multi-year period with a large grant, this practice is often viewed unfavorably by ISS, as evidenced by the AGAINST Say-On-Pay recommendation for the company.

Long-Term Incentives

- **Brixmor Property Group Inc. and Brandywine Realty Trust**

Both REITs have introduced an outperformance modifier to the grant of time-based equity. The "original" time-based equity award will vest ratably over a three-year period and will not be subject to risk of forfeiture associated with performance-based conditions. However, the outperformance modifier may increase (but not decrease) the original time-based award by up to 2x for achievement of certain hurdles over a three-year period. This award is in addition to the performance-based equity granted at both companies.

- **Equity Lifestyle Properties, Inc.**

Equity Lifestyle Properties granted a one-time transition award of time-based stock due to the company's change in vesting requirements. Equity Lifestyle Properties shifted from a one-year to a three-year vesting period and correspondingly provided a transition award to mitigate the impact of a reduction in realized pay for the NEOs in 2018 and 2019. Transition awards have played a meaningful role in compensation structure as compensation approaches change at certain companies.

From a Compensation Consultant's Perspective...

The look, feel and shareholder-friendliness of REIT proxy statements have notably improved. Many REITs have embraced the concept that the proxy is more than just a disclosure requirement, but also a “marketing tool” which provides an opportunity to tell their company’s story to the market. Higher-end graphics, supplemental pay tables and forward-looking compensation disclosure are being included more often as a way to “get in front” of shareholder communication. Additionally, proactive shareholder outreach throughout the year has become more common, and the proxy statement itself is used to recap these conversations and their impact on the compensation program and governance structure.

List of the Early 30 REITs

AGNC Investment Corp.	HCP, Inc.
Agree Realty Corporation	Kimco Realty Corporation
Alexander & Baldwin Inc.	National Health Investors, Inc.
American Campus Communities, Inc.	Paramount Group, Inc.
Apartment Investment and Management Company	Park Hotels & Resorts Inc.
CareTrust REIT, Inc.	Physicians Realty Trust
City Office REIT, Inc.	Piedmont Office Realty Trust, Inc.
Cousins Properties Incorporated	Public Storage
CyrusOne, Inc.	QTS Realty Trust, Inc.
DiamondRock Hospitality Company	Realty Income Corporation
Duke Realty Corporation	RPT Realty
Dynex Capital, Inc.	Seritage Growth Properties
Equity LifeStyle Properties, Inc.	Terreno Realty Corporation
Franklin Street Properties Corp.	Urstadt Biddle Properties Inc.
Getty Realty Corp.	Weingarten Realty Investors

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 our clients on both routine and complex 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 have 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 that rewards employees for creating tangible value.

Larry Portal
Senior Managing Director
+1 973.852.8147
larry.portal@fticonsulting.com

Katie Gaynor
Managing Director
+1 704.972.4145
katie.gaynor@fticonsulting.com

Jarret Sues
Managing Director
+1 973.852.8109
jarret.sues@fticonsulting.com



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