REIT EXECUTIVE COMPENSATION AND CORPORATE GOVERNANCE INSIGHTS

JULY 2018

2018 Say-on-Pay Recap for the REIT Industry

Support for Say-on-Pay proposals tapered off in 2018, resulting in a more challenging year for REITs regardless of the voting recommendations of proxy advisory firms, such as ISS. Between 2015 and 2017, Say-on-Pay proposals in the REIT industry experienced a pattern of increasing support, but in 2018, that trend reversed. Despite lower support at self-managed REITs, externally-managed REITs were able to buck the trend due to increased compliance with ISS disclosure guidelines.

Key 2018 Say-on-Pay Highlights

- **Decline in Say-on-Pay Support** – Shareholder support decreased for both REITs and the general industry.
- **Incentive Compensation Criticism** – ISS was more vocal of its disapproval of certain incentive compensation features, including target payouts if TSR is negative (notwithstanding relative performance) and target payouts for relative performance at the median.
- **Limited Impact of the Financial Performance Assessment (FPA)** – The newly-added FPA test had a minimal impact on ISS Say-on-Pay voting recommendations, with only one REIT that received a negative voting recommendation from ISS adversely affected (shifting from a “Low” to “Medium” concern as a result of the FPA).
- **More Active Shareholder Voting** – Institutional investors are becoming less reliant on the voting recommendations of proxy advisors, even at companies with positive ISS voting recommendations, signaling to companies the need for active engagement with shareholders and transparent compensation disclosure.

While overall Say-on-Pay support decreased among the Russell 3000, self-managed REIT results fared worse than the overall market:

- The number of self-managed REITs with negative ISS voting recommendations increased at a higher rate than companies in the Russell 3000 (a 4.1% increase from 2017 to 2018, compared to an increase of 1.4% for the Russell 3000)
- Average support decreased more significantly for self-managed REITs (down 2.4% from 2017 to 2018, compared to a 1.3% decline for the Russell 3000)

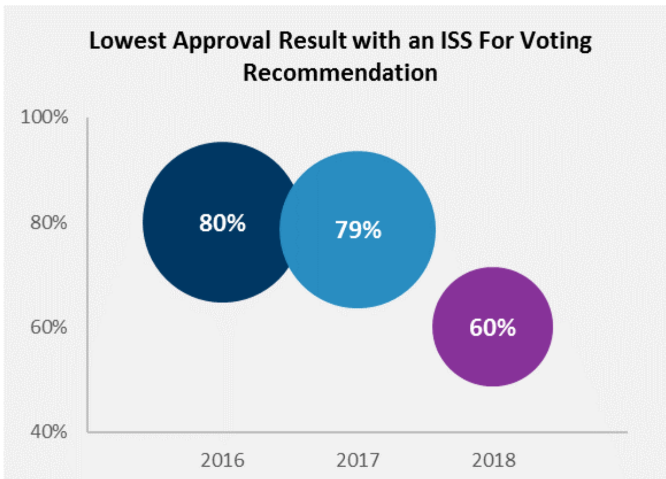
Industry/Index	Average Support	*Change YOY*	ISS Against Voting Recommendations #	ISS Against Voting Recommendations %	*Change YOY*	Failed Say-on-Pay Proposals #	Failed Say-on-Pay Proposals %	*Change YOY*
All REITs	89.95%	*(1.7%)*	26	14.9%	*1%*	4	2.3%	-%
Self-Managed REITs	90.90%	*(2.4%)*	15	9.9%	*4%*	3	2.0%	*1%*
Externally-Managed REITS	84.23%	*2.9%*	11	45.8%	*(16%)*	1	4.2%	*(4%)*
Russell 3000	90.58%	*(1.3%)*	286	13.7%	*1%*	47	2.2%	*1%*

Source: ISS Corporate Solutions for data available as of June 28, 2018

Snapshot of Say-on-Pay at Self-Managed REITs

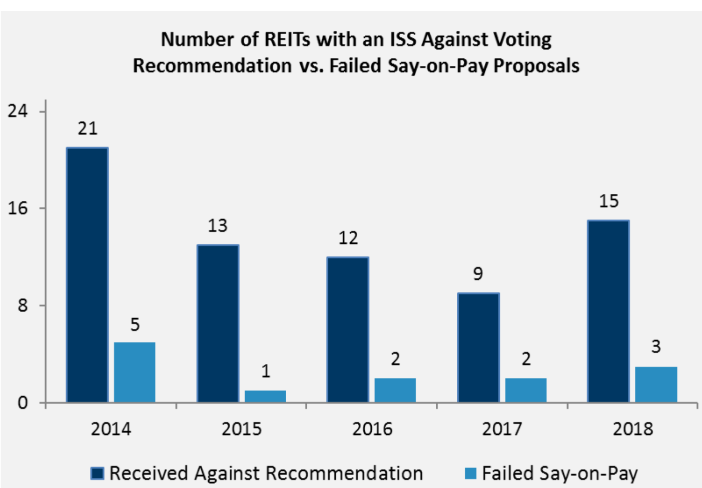
Declining Say-on-Pay support highlights the growing importance of governance matters, including compensation issues, among institutional shareholders. Institutional shareholders are taking a more active and hands-on approach to educating themselves on Say-on-Pay proposals and not relying solely on the voting recommendations of proxy advisors. Institutional shareholders becoming more independent in their decision-making process is highlighted by the fact that:

- 60% of self-managed REITs that received a positive voting recommendation from ISS experienced a decrease in Say-on-Pay support from the prior year
- Lowest Say-on-Pay results for a REIT with a positive ISS voting recommendation received just a 60% shareholder approval rate in 2018

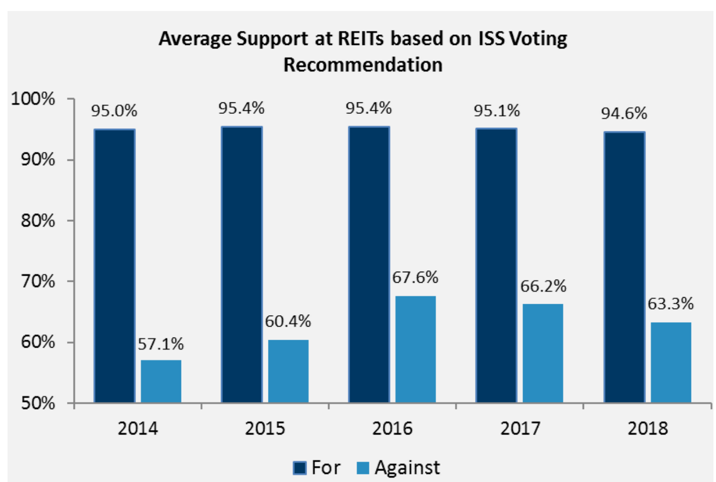


REIT Say-on-Pay proposals experienced a 67% increase in negative ISS voting recommendations – jumping from 9 to 15 Against voting recommendations from 2017 to 2018. Additionally, shareholder support declined regardless of whether a REIT received a For or an Against ISS voting recommendation, disrupting the upward trend from previous years.

15 Self-Managed REITs Received a Negative Say-on-Pay Voting Recommendation in 2018



Voting Results at REITs that Received a Negative ISS Voting Recommendation Decreased More Significantly



Factors Influencing ISS Voting Recommendations

Ten out of the 15 self-managed REITs that received an Against voting recommendation from ISS triggered a "High" pay-for-performance concern; 4 triggered a "Medium" concern, and 1 triggered a "Low" concern under ISS' quantitative evaluation. While the CEO pay-for-performance relationship is a significant factor used by ISS, it is generally not the only contributing reason cited by ISS for issuing an Against voting recommendation. The most common reasons cited by ISS include:

Reason/Concern	% of REITs w/ Negative ISS Recommendation(1)
Pay-for-Performance Misalignment	93%
Rigor of Performance Goals (STI or LTI):	67%
- TSR Targeted at/below Median	40%
- Payout Not Capped if TSR is Negative	33%
Short-Term Incentive (or Cash Bonus) Plan Design	60%
Severance-Related Provisions	47%
Payouts Above Target despite Lagging Performance	40%
Long-Term Incentive Plan Design	33%
Outsized STI Target	33%
Base Salary (Outsized or Significant Increase without Compelling Reason)	27%
Outsized Equity Grant	27%

(1) Out of 15 that received an Against Say-on-Pay voting recommendation from ISS

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.

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FTI CONSULTING

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