

2023 REIT Say-on-Pay Recap:

Despite Share Price Challenges, Say-on-Pay Support Remains Relatively Flat

In 2023, despite facing share price challenges and declining sentiment in the real estate sector, self-managed REITs experienced a marginal uptick in average support. This sustained support demonstrates investors' recognition of the long-term value and strength of REITs, even during challenging times. ISS continues to emphasize comprehensive disclosure particularly as it relates to incentive programs, highlighting the importance of implementing robust and transparent compensation structures aligned with ISS and stakeholder expectations.

Key Takeaways

Failure to Engage has Significant Consequences

- » Two REITs failed to sufficiently engage and respond to shareholder feedback after receiving less than 70% in 2022, resulting in an automatic ISS Against recommendation on a standalone basis, and ultimately failing their Say-on-Pay vote
- » One additional REIT received an 'Against' recommendation due to the company's limited responsiveness to shareholder concerns

Importance of Robust Disclosure

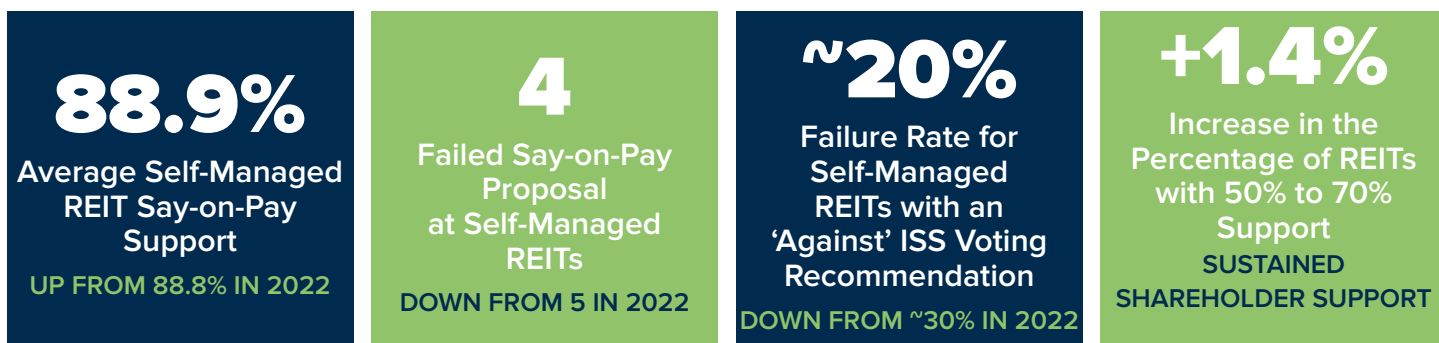
- » 50% of REITs that received an 'Against' ISS recommendation provided insufficient disclosure, generally relating to incentive structure and/or payouts
- » One REIT was able to reverse their ISS 'Against' recommendation after providing additional disclosure in an amended proxy

Impact of ISS Pay-for-Performance Evaluations

- » While ISS' Pay-for-Performance evaluation continues to be the biggest indicator in receiving an 'Against' recommendation, 5 out of 19 REITs received an 'Against' recommendation without triggering a High Pay-for-Performance concern in 2023
- » Severance-related concerns continue to be the most common overriding factor in receiving an 'Against' recommendation outside of a pay-for-performance failure, followed by lack of shareholder engagement or insufficient response to feedback

* Say-on-Pay dynamics and results at externally managed issuers (or EMLs) are not directly analogous to self-managed companies since they do not directly compensate their executive officers and Say-on-Pay results essentially only relate to certain disclosure-related factors. Accordingly, self-managed REIT results have been separately analyzed.

Topline Findings



2023 Say-on-Pay Snapshot

- » While average support at self-managed REITs increased by 0.1% to 88.9%, it represents the second lowest support level since 2013
- » The number of REITs that received an 'Against' recommendation increased by three year-over-year, however the rate of failure following an 'Against' recommendation dropped by ~7.1%
- » Average support at EMIs increased by 0.5% to the highest average support level since 2015, when ISS revised their policy to recommend 'Against' Say-on-Pay proposals for EMIs with insufficient compensation disclosure
- » While the number of externally managed REITs ("EMIs") that received 'Against' recommendations increased slightly year-over-year, no EMIs failed their Say-on-Pay proposal
- » See Exhibit A on page 5 for a longer-term analysis of Say-on-Pay results in the REIT industry

		Average Support	ISS 'Against' Voting Recommendations		Failed Say-on-Pay Proposals	
			#	% ⁽¹⁾	#	% ⁽¹⁾
All REITs	2023	88.9%	24	13.6%	4	2.3%
	YoY Trend	↓ 0.4%	↑ 3	↑ 1.7%	↓ 1	↓ 0.6%
Self-Managed REITs	2023	88.9%	19	13.0%	4	2.7%
	YoY Trend	↑ 0.1%	↑ 2	↑ 1.4%	↓ 1	↓ 0.7%
Externally-Managed REITs (EMIs)	2023	89.0%	5	16.1%	0	0.0%
	YoY Trend	↑ 0.5%	↑ 1	2.8%	0	0.0%
Russell 3000	2023	90.2%	278	12.2%	47	2.1%
	YoY Trend	↑ 0.7%	↓ 35	↓ 1.7%	↓ 30	↓ 1.4%

Source: ISS Corporate Solutions for data available as of July 31, 2023

(1) Reflects percentage of 'Against' and Failed proposals as a percent of companies that held a vote in that year, as of July 31, 2023



Say-on-Pay Frequency Vote

Say-on-Pay frequency votes are required to be held every six years. Most public companies held their first vote in 2011 and their second in 2017. With 2023 marking the third vote for many REITs, 95% recommended an annual vote frequency with average support of 94.5%, in line with ISS preference and highlighting an overall commitment to regularly assess and address matters related to executive pay. For those that recommended a triennial vote, average support was markedly lower at 67.9%.

Evaluation of Say-on-Pay Results

Say-on-Pay proposals require only a majority of shareholders to approve (i.e., >50%), however support levels of less than 80% generally warrant shareholder engagement that if left unaddressed can lead to further scrutiny and potential for adverse voting recommendations from proxy advisory firms. There are generally four levels of support that warrant different types of shareholder engagement, as follows:

Support Level	Description	% of Self-Managed REITs	
		2023	YoY Trend
80% or More	Generally considered high enough support that no action is expected	86.3%	↓ 0.1%
70% - 80%	Glass Lewis expects that companies with less than 80% support to conduct shareholder engagement; this benchmark is generally less critical for REITs given that only 5%-10% of REIT shareholders are influenced by Glass Lewis guidance	4.8%	↓ 0.6%
50% - 70%	ISS expects that companies with less than 70% support to conduct shareholder engagement; this benchmark is generally the REIT industry standard to trigger the shareholder engagement process given ISS substantial influence on Say-on-Pay results	6.2%	↑ 1.4%
Less than 50%	A failed Say-on-Pay proposal requires shareholder engagement to mitigate the risk of low shareholder support on other non-advisory proposals	2.7%	↓ 0.7%

Equity Plan Proposals

Equity plan upsizing proposals generally receive higher levels of support relative to Say-on-Pay proposals given that these plans provide a tangible benefit to shareholders, serving as a direct means to align the interests of management and shareholders.

- » Average support for equity plan proposals among REITs was approximately 89% with no REITs failing to secure support from a majority of their shareholders despite ISS recommending 'Against' nearly 25% of proposals in 2023
- » Average support for REITs that received an 'Against' was 73% as compared to 94% for those that received a 'For' recommendation

Factors Influencing ISS Voting Recommendations

ISS voting recommendations continue to be a significant factor in Say-on-Pay support levels for REITs. While ISS' evaluation is heavily predicated on analyzing CEO pay magnitude, other qualitative factors have significant impact on their voting recommendations. Key findings include:

Pay-for-Performance Misalignment Driven by 'High' Relative Degree of Alignment

Approximately 73% of REITs that received an 'Against' recommendation with a High pay-for-performance misalignment triggered a 'Medium' or 'High' concern under the Relative Degree of Alignment test, which compares three-year average CEO pay relative to three-year annualized total shareholder return performance.

Incentive Program Structure Continues to be a Significant Factor

More than half of self-managed REITs that received an 'Against' voting recommendation were cited for their lack of transparency regarding annual incentive metrics, goals and weightings. Other commonly cited concerns are illustrated below:



60% had **short-term incentive plan related concerns**

- » 50% had STIPs that cited for lack of disclosure
- » 30% had STIPs that were largely discretionary
- » 10% had relatively high bonus opportunities



70% had **long-term incentive plan related concerns**

- » 25% targeted median performance for relative TSR
- » 20% utilized annual measurement periods
- » 15% did not provide a cap for payouts in the event of negative TSR

Limited Response to Shareholders Trigger 'Against' Recommendations on a Standalone Basis

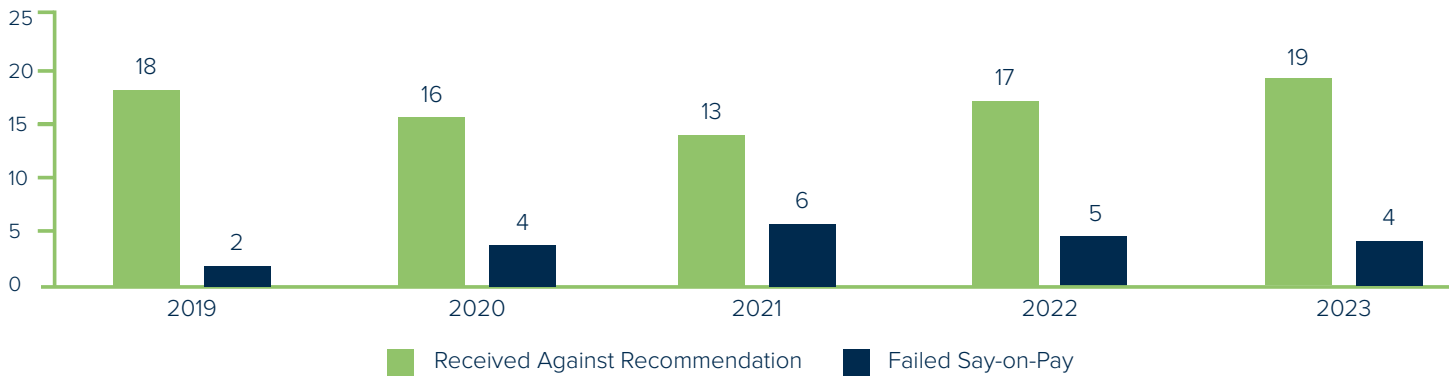
16% of REITs received an 'Against' recommendation largely due to their failure to sufficiently engage with or respond to shareholders. Two of these three REITs represented 50% of REIT Say-on-Pay failures in 2023.

Significant and Consecutive One-Time Awards Create Say-on-Pay Challenges

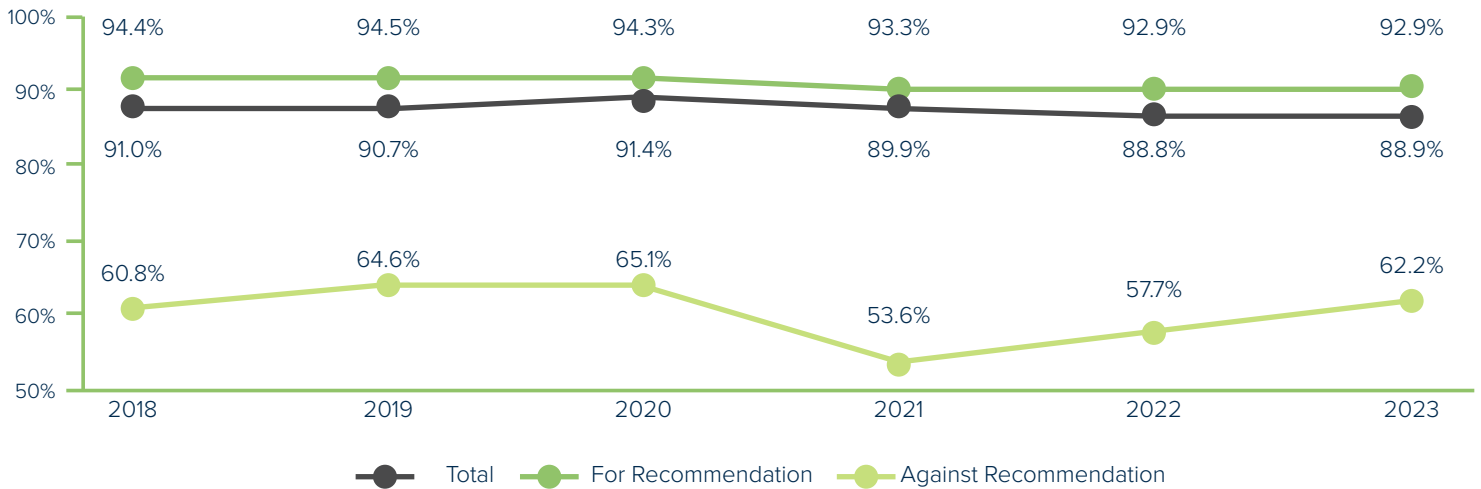
Five REITs with 'Against' voting recommendations granted one-time awards deemed 'problematic' by ISS due to timing/size of grant or lack of performance-based criteria. This continues to be a major concern among shareholders that generally results in low support, with one failing Say-on-Pay and the remaining four REITs receiving less than 70% support.

Exhibit A: Self-Managed REIT Say-on-Pay – Five-Year Trends

Number of Self-Managed REITs with an ISS Against Voting Recommendation vs. Failed Say-on-Pay Proposals



Average Support at Self-Managed REITs (based on ISS recommendation)



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