Impact of Covid-19 on REIT Compensation Debrief:

An Unprecedented Year for Modifications to Annual Incentive Plans But Limited Changes to Long-Term Incentives

The past year has been unprecedented in many ways, including the economic impact of the COVID-19 pandemic on the REIT industry. Throughout 2020, companies regularly reviewed compensation to monitor the pandemic's impact on existing pay programs and to assess what, if anything, should be done to maintain alignment of executive pay and investor interests while continuing to motivate performance during these challenging times.

Ferguson Partners Consulting L.P. has analyzed executive compensation data from the 2021 proxy statements of 140 self-managed equity REITs to understand the compensation actions taken during the 2020 performance year. While approximately 15% of equity REITs reduced salaries during 2020, many more companies modified incentive compensation components.

Key Findings

- Annual incentive plan adjustments were widespread with 62%[1] of REITs modifying their existing formula during 2020; shopping centers and regional malls ("Retail REITs") had the highest percentage of adjustments at 95%
- Consistent with investor priorities, many REITs that adjusted metrics or added discretion to annual incentive plans included ESG metrics. This trend is expected to continue in 2021.
- Median bonus payouts in the REIT industry were slightly below target in 2020 (99% of target), which is a meaningful decline from 123% of target in 2019, and varied significantly by sector.
- Long-term incentive changes were limited – less than 10% of REITs adjusted outstanding equity awards
- Fewer special equity awards were granted than in prior years – 14% of REITs granted one-time awards in 2020 vs. 19% in 2019

1 Note these statistics are based on 125 REITs (out of the 140 REITs analyzed) that traditionally use formulaic annual incentive plans and excludes companies that historically use a fully discretionary program since adjustments to these programs would not be necessary.

Modifications to Annual Incentive Plans

The impact of COVID-19 on 2020 REIT operations was material and resulted in significant changes to business and strategic priorities in many sectors. Accordingly, many compensation committees determined that previously established annual incentive plans were inconsistent with the near-term priorities of the organization and original budgets and forecasts used to set annual goals were unrealistic. This resulted in the majority of REITs modifying their annual incentive plan:

- 77 REITs, or 62% of REITs, adjusted their annual incentive plans. Changes ranged from overriding all existing metrics with discretionary/subjective programs, modifying performance hurdles, substituting performance metrics, and delaying the finalization of goals until midway through the year. For many hard-hit sectors, bonuses would have funded close to or below threshold levels without these adjustments
- Of the 77 REITs that made adjustments, the majority (55%) switched to a fully discretionary program under which bonuses were awarded based on a subjective review of performance. It is important to note that while these programs were paid at the sole discretion of the compensation committee, they often included pre-identified performance goals and objectives that provided management with a clear understanding of what factors would be assessed at year end

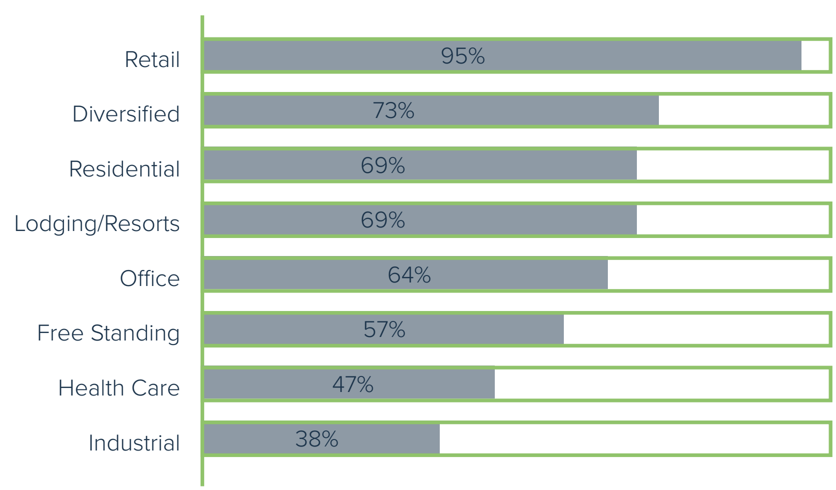
62%
MADE BONUS ADJUSTMENTS

Most Common Adjustments[2]

42 REITs Changed Program to Fully Discretionary
19 REITs Changed Metrics
12 REITs Decreased Target Values
11 REITs Adjusted Hurdles

- Many REITs that changed metrics or used additional discretion added Environmental, Social and Governance (ESG) metrics for consideration
- Unsurprisingly given the pandemic's material impact on operations, Retail REITs tallied the highest percentage of adjustments with 95% modifying their existing programs. Conversely, lodging/resort REITs were also significantly impacted but only 69% adjusted programs, resulting in the lowest bonus funding across all REIT sectors (bonuses funded at 65% of target at lodging/resort REITs vs. 85% of target at Retail REITs)

Percentage of REITs that Adjusted Bonus Programs by Sector[3]



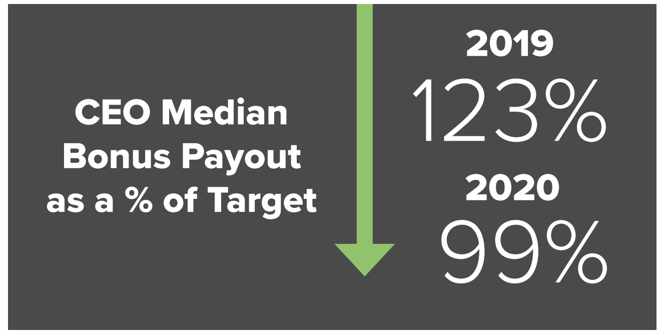
2 Some REITs made more than one adjustment

3 Sectors illustrated above excludes REITs that operate within the data center, infrastructure, self storage, specialty, and timber sectors in our "by sector" analysis given the limited number of REITs within each asset class

Bonus Payouts Across the Industry

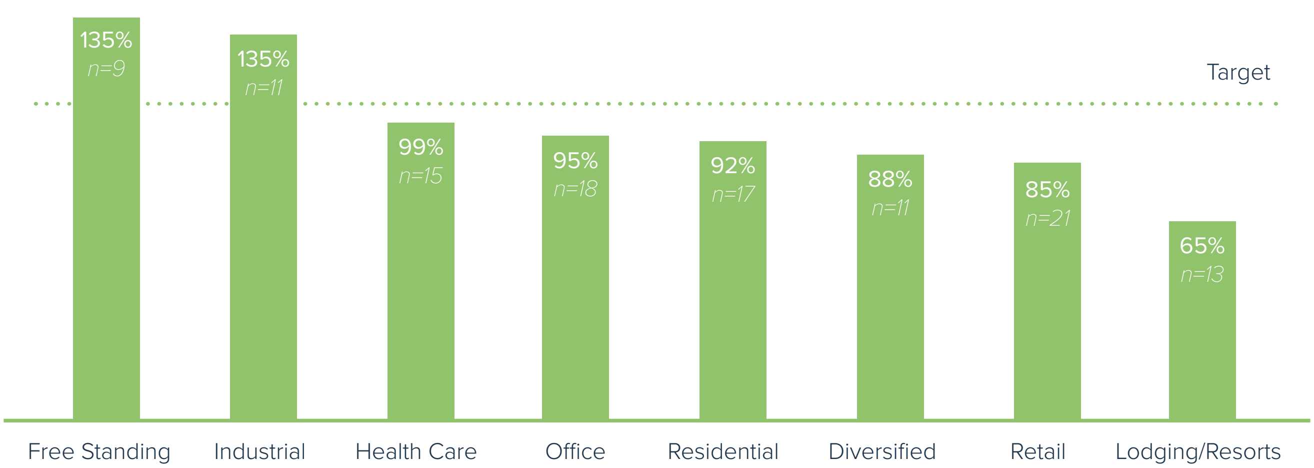
Notwithstanding the modifications to annual incentive plans, the 2020 performance year resulted in significant reductions in overall bonus payouts from prior years:

- The median CEO bonus payout across the REIT industry decreased from 123% of target in 2019 to 99% of target for 2020
    - Other NEOs' bonus payouts often matched the CEO's bonus payout as a percentage of target, with 42% of companies funding bonuses at the same levels for both CEOs and the rest of the executive team
    - Other NEOs generally fared better than the CEO if the overall bonus funded below target



- This is the first time in the past 10 years that median bonuses funded below target in the REIT industry, with bonuses funding meaningfully above target by approximately 20% – 30% over this time period. It is important to note that the pandemic did not impact all REIT sectors the same, with some asset classes having record breaking years and accordingly, payouts at these organizations actually exceeded historical run rates
    - Free standing and industrial REITs funded bonuses at the highest levels for 2020, with median bonus payouts of 135% and 128% of target, respectively
    - Lodging/resort and Retail REITs funded bonuses at the lowest levels, with median bonus payouts of 65% and 85% of target, respectively

Median CEO Bonus Payout as a Percentage of Target by Sector



Long-Term Incentive Modifications

Conversely, changes to long-term incentive (LTI) programs were limited. The relatively muted impact to LTI awards is likely a result of several factors, including:

- Compensation committees often deemed that outstanding LTI awards were still able to effectively reward long-term performance (despite short-term declines in stock price) and results were generally consistent with the financial impact to shareholders
- The potential negative implications to Say-on-Pay results is often significant for certain modifications to LTI programs
- Changes to in-flight equity awards often result in adverse accounting costs

2020 Modifications to LTI Programs

Type of Change	# of REITs	Impact
Applied Discretion to LTI Plan Payout (award agreement allowed for discretion)	3	• At least one REIT received a negative voting recommendation from ISS as a result of applying discretion (vote results still pending) • No impact to accounting since the award agreements were not amended (but such awards have liability accounting treatment so the actual shares earned are ultimately expensed)
Issued only time-based awards in 2020 and eliminated the performance component	2	• One REIT had no impact to Say-on-Pay but was coupled with a 40% cash bonus reduction for most of their NEOs • Other REIT recently IPO'ed and did not have a 2021 Say-on-Pay proposal
Extended the performance period	2	• One REIT failed their Say-on-Pay proposal in part due to this adjustment • Resulted in an incremental accounting expense that was reportable in the summary compensation table
Canceled outstanding performance awards and replaced with time-based awards	1	• Failed Say-on-Pay • Incremental fair value of replacement awards had to be expensed and both grants had to be disclosed in the proxy statement

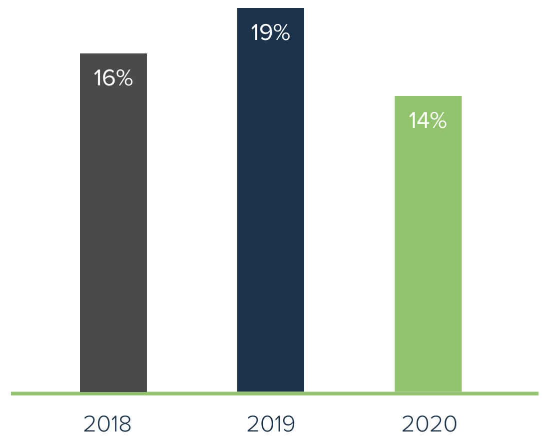
While not a direct change to the award terms, 3 REITs made technical adjustments to the income tax book-up price for outstanding LTIP Units issued in the operating partnership. These had limited to no impact on Say-on-Pay or voting recommendations but resulted in an incremental fair value expense that had to be disclosed in the summary compensation table.

Special Awards

The use of special one-time equity awards was somewhat muted in 2020 as compared to recent years. It is common in any given year for approximately 15% to 20% of REITs to issue some type of off-cycle or special equity awards to certain NEOs. The most frequent purpose of these grants is to provide additional retention to an executive (often at the time of a new employment agreement), a special grant at the time of a promotion, a transaction-related award, or a special performance program that rewards specified performance outside of the goals used in the annual program. In 2020, these types of awards slightly decreased to 14% of REITs.

In 2020, 4% of REITs granted special awards that were directly attributed to COVID-19, with the other 10% disclosed as awards in connection with promotions, M&A activity, or non-COVID-19 retention reasons. So far in 2021, 6% of REITs have reported granting special awards in response to the business effects caused by the pandemic as companies continue to manage the impact of COVID-19 on retention and motivating management to execute post-pandemic strategies.

Percentage of REITs that Granted Special Awards[4]



2021 Outlook

The impact of COVID-19 on REIT compensation is expected to continue in 2021 but to a much lesser extent. One of the key takeaways in 2020 was that overly formulaic compensation structures can result in limited to no flexibility for boards to apply business judgement to year-end compensation decisions, which can have material implications during periods of disruption and uncertainty. Additionally, non-financial performance metrics have increased in importance for many institutional shareholders and within REITs' strategic business plans (the most prominent being ESG-related factors).

Accordingly, some REIT compensation programs have been modified for 2021 to factor in these new developments. While the majority of REITs have returned to formulaic incentive programs, many have incorporated more subjectivity by adding in performance goals that cannot be measured on a quantitative basis, and/or increasing the weighting of the discretionary portion. For 2021, it is anticipated that annual bonuses will still require the compensation committee to conduct an in-depth, qualitative assessment of performance, albeit to a lesser degree than in 2020.

4 Excludes sign-on/inducement awards provided to outside hires and internalization / IPO-related awards

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