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REITs well-positioned for say on pay implementation, analysts claim

By Zach Fox

Shareholders will soon find themselves holding some leverage on setting executive compensation when the Dodd-Frank financial regulatory reform legislation takes effect.

And though the legislation largely focuses on the financial sector, the so-called "say on pay" provision will also apply to REITs, opening executives to the possibility of activist shareholders pushing for less management compensation.

The votes are nonbinding, however, so shareholders will not directly determine compensation. Still, boards will likely not be eager to receive a vote against the company's compensation structure. And if the votes are not acted on, shareholder advocacy groups could block the re-election of compensation committee directors, according to an [analysis](#) by law firm Foley Hoag LLP.

Industry observers said shareholders will likely look at factors such as the company's recent total return, its market capitalization, the competition for such an executive and other factors in making their decision. To get an idea of which companies might face shareholder pressure, one might look at year-to-date total return of each company, though return is simply one of myriad factors.

REITs with lowest YTD total return			
Company (ticker)	Implied market cap (\$M)	CEO compensation (\$)	YTD total return (%)
Weyerhaeuser Co. (WY)	9,261.1	830,807	-51.53
Care Investment Trust Inc. (CVTR)	44.3	142,297	-43.44
USA REIT (USRE)	2.2	52,800	-29.41
Parkway Properties Inc. (PKY)	382.2	707,727	-15.14
Pebblebrook Hotel Trust (PEB)	777.5	6,164,702	-11.45
Cedar Shopping Centers Inc. (CDR)	410.0	1,249,061	-5.44
Mack-Cali Realty Corp. (CLI)	2,877.0	3,132,489	-4.95
Corporate Office Properties Trust (OFC)	2,439.8	2,612,358	-3.74
Duke Realty Corp. (DRE)	2,862.4	2,942,697	-3.19
Franklin Street Properties Corp. (FSP)	1,072.2	225,000	-2.68
First REIT of New Jersey (FREVS)	118.0	205,000	-2.12
Highwoods Properties Inc. (HIW)	2,336.1	540,750	-1.80
Mission West Properties Inc. (MSW)	699.2	100,000	-1.61
Liberty Property Trust (LRY)	3,641.5	1,929,074	0.72
Brandywine Realty Trust (BDN)	1,576.6	1,492,215	0.88
Supertel Hospitality Inc. (SPPR)	35.1	191,732	1.33
Retail Opportunity Investments Corp. (ROIC)	422.7	1,733,750	2.09
Healthcare Realty Trust Inc. (HR)	1,339.4	1,226,269	2.35
Plum Creek Timber Co. Inc. (PCL)	6,039.4	3,825,567	3.55
Cousins Properties Inc. (CUZ)	2,805.9	664,426	4.53
All REIT Median	1,310.0	1,175,000	21.85

As of Dec. 8, 2010
Only includes those REITs with 2009 CEO compensation data.
Source: SNL Financial

Though real estate companies will be subject to the new provision, industry observers said they might not have to change much.

"I think REITs have been very proactive in adopting performance-based programs and will continue to do so," said Anthony Saitta, a managing director for FTI Schonbraun McCann Group.

Richard McGinley, managing director at Gressle & McGinley, expressed similar sentiments, saying REITs have, by-and-large, already addressed compensation issues.

"Knowing they have to go to the public markets as much as they do, they have a built-in incentive to manage well," McGinley said.

However, Saitta said that does not necessarily mean Dodd-Frank is irrelevant, saying it possibly accelerated the trend of REITs moving toward performance-based compensation.

That said, some REITs have earned a reputation for excessive compensation. Notably, *Crain's New York* titled a recent [story](#) on [SL Green Realty Corp.](#)'s pay

package for its newly appointed CFO as "Shock, horror: SL Green fails to pay lavishly." The article reported the \$1 million minimum annual salary and \$300,000 signing bonus as "in line with industry norms, which is a departure for SL Green."

Neither McGinley nor Saitta would comment on SL Green or any other REIT since they count the companies as clients.

Any fears that an angry mob of shareholders incensed by million-dollar packages will damage companies' ability to attract and retain top talent is likely unfounded, the Foley Hoag analysis stated. Rather, much of the provision will boil down to the sentiments of institutional investors.

And institutional investors, McGinley said, are unlikely to be swayed by emotions or the seemingly huge figures.

"Sophisticated institutional investors won't just look at cost," McGinley said. "They'll say, 'Are we keeping our people?' And, 'Is it

managing shareholder value well?"

The proposed [rules](#) from the SEC stipulate that companies must hold the nonbinding say-on-pay votes once every three years beginning with the first annual shareholders' meeting taking place on or after Jan. 21, 2011.

Whether driven by Dodd-Frank or public market perceptions, Saitta said executive compensation might be in a period of transition.

"As you go forward," he said, "I think you might see more of the existing compensation become performance-based rather than purely time-based."

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