

## Stock Performance Drives REIT Compensation Gains

By Paul Bubny

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**NEW YORK CITY** - Thanks in large measure to rebounds in stock prices, compensation levels within the REIT industry increased last year by a median of 3% to 15%, depending on employee level, according to a new study by locally based FTI Schonbraun McCann Group. Similarly, the compensation survey conducted for the Washington, DC-based National Association of Real Estate Investment Trusts found that pay increases to REIT employees exceeded expectations.

"REITs were not immune to the downturn in the financial markets," Jeremy Banoff, managing director of FPL Consulting, which conducted the 2010 NAREIT Compensation Survey, said in a video interview conducted by the association's Matt Bechard. As a result, when FPL surveyed REIT leaders a year ago, their predictions of compensation increases over the next 12 months were generally "minimal," Banoff said. Come 2010, however, "the actual increases that took place were healthier."

That contrasts as well with the story told in SMG's 2009 CoMP survey. It found that that cash bonuses for REIT officers decreased at the median by 10% for 2008, but ranged from 15% increases to decreases of over 50% at REITs with liquidity and operational

performance concerns. The equity component of annual bonuses declined even more: 30% at the median, with decreases ranging from flat to declines of over 60%.

"As part of our work with a significant number of the country's leading REITs for whom we have researched and helped develop executive compensation programs, we saw first-hand that compensation committees and boards of directors considered fundamental performance, as well as the REIT's current and near-term liquidity position in determining annual cash bonuses," Larry Portal, senior managing director and co-head of SMG's executive compensation group, said at the time.

This year, Portal observes in a release, "Many real estate companies have been trying to balance liquidity and dilution concerns while also trying to retain employees and keep them motivated during these difficult economic times. In 2010/2011, we expect to see fewer companies experiencing drastic compensation adjustments such as 20% increases or 20% decreases as people become more comfortable with current economic conditions."

Portal adds that SMG expects we'll continue to see "notable increases" through the use of performance-

based shares. "While there is a current compensation/grant date value associated with such awards, the actual value realized by recipients will ultimately depend on sustained company performance," he says.

Accordingly, SMG's '10 survey says that REITs don't expect to increase salary budgets substantially next year, as most increases are projected to occur in the 2.8% to 3.0% range, in line with the NAREIT/FPL study's findings. However, SMG says more REIT employees can expect to receive a raise this year, with upwards of 90% of employees forecasted to receive increases in 2011.

Banoff said NAREIT's survey found that the industry is "cautiously optimistic" about the future. He cited an increase in hiring of capital raising professionals as well as more new hires in the asset and portfolio management areas.

Although time-based restricted stock prevails as the equity compensation vehicle of choice for REITs, SMG says other formats have grown more prevalent in recent years. Thirty-



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four percent of REITs use stock options, while 31% offer performance-based restricted stock.

"It will be interesting to see how the impact of the Dodd-Frank Act and say-on-pay will ultimately play out," Portal says in the release. "While these mandates more directly impact executive compensation arrangements, we have seen how changes in the compensation structure and levels for executives can have a trickle-down effect on employees throughout an organization. Ultimately, that may mean more performance-based equity awards for all employees."



The Schonbraun  
McCann Group

Larry Portal is a senior managing director at FTI Schonbraun McCann Group. He can be contacted at [lportal@smgllp.com](mailto:lportal@smgllp.com) or [larry.portal@fticonsulting.com](mailto:larry.portal@fticonsulting.com) or (973) 364-0400.