12 REIT Trends Necessitate Strategic Compensation Management

Active Governance	To sustain and strengthen their current reputation for governance practices, Boards will become more independent, involved, strategic and proactive. For some, training/education are involved. For all, scrutiny of compensation will continue, an area where REITs can win additional investor confidence.
Selective Investors	Increased institutional status has come from proving a long-term horizon, diversification and big returns over the last 3 years. With knowledge and in time, investors will become more selective, demand more from Boards/ management, and separate the best from the rest.
Maximizing Opportunity	Formulating compensation decisions will require more than just peer comparison. Establishing REIT performance/compensation relationships answers a key question of investors, and forms the strategic platform to maximize executive compensation opportunity over time.
Shifting Capital	Structural capital constraints and capital market shifts will continue to influence REIT market returns, often divergent from financial performance. Private vs. public investment competition will be won in part by governance – including compensation – as well as strategy.
Sustaining Creditability	Real estate's reputation in public markets continues to improve, building confidence. Clarity in communicating REIT accounting requires compelling investor relations - in all areas. Compensation must be creditable absolutely, and relative to other investments.
Greater Transparency	The stock option controversy will subside, but transparency and disclosure requirements will not. Despite current focus on financial reporting change, compensation issues remain, and may soon exceed accounting as the "hot button" of shareholders.
Broader Comparison	Rising status and broader acceptance means that a REITs "closed" industry perspective is vulnerable. The inertia of compensation structure "like everyone else's" will shift to competitive edge objectives, market distinction design, and inclusion of out-of-industry benchmarks.
More Regulation	Companies face Sarbanes-Oxley, as well as changes in SEC rules, Committee Charters, mandates, disclosure, and policy/practice. SFAS 123 option treatment may have only a small impact on FFO/share, but may offer opportunity in long-term compensation structures.
Stronger Planning	REITs are maturing in strategy and execution, and methods to enhanced the linkage of company medium-term objectives with compensation can clarify targets as well as expectations, reinforce retention, increase motivation, and link directly to strategy.
Generating Wealth	The REIT structure poses challenges in creating value for companies and wealth for senior executives. Turnover of family founder CEO leadership to professional management means a refocus on strategic and innovative compensation design as well as capital events.
Management Skills	A maturing REIT industry's CEO skills mix will shift from dominantly real estate/financial expertise, to include technology, marketing, branding, operations and strategic leadership – furthering the need for out-of-industry compensation benchmarks and effective succession plans.
Consolidation	The sector may have too many REITs to insure market distinction, and the cost of new regulation puts additional pressure on operational efficiency and the need for size. Small and medium cap REITs will feel it the most and the economic pressure for consolidation will be strong.