Executive Pay Alignment in the Property Sector

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Waiting for Godot?

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Key Takeaways

- Consistent poor alignment of executive pay and securityholder returns
- Adjusted earnings consistently exclude negative impacts for bonus purposes
- Cash outcomes for executives remain high
- Highest paid CEOs have retired or are retiring but poor practices persist

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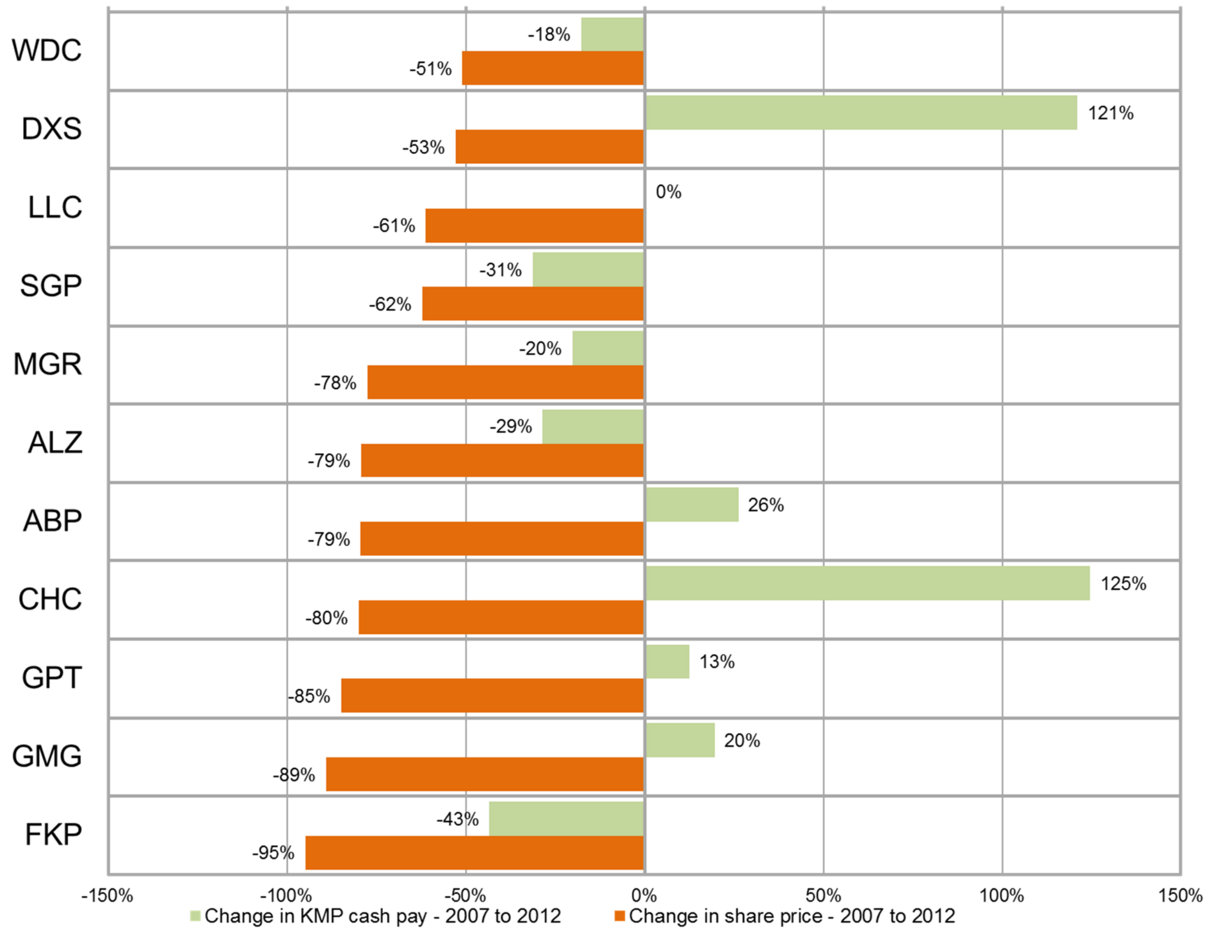

At a glance ....

- **Consistent poor alignment of executive pay and securityholder returns**
- **Adjusted earnings consistently exclude negative impacts for bonus purposes**
- **Cash outcomes for executives remain high**
- **Highest paid CEOs have retired or are retiring but poor practices persist**

Background

No other sector in the S&P/ASX 200 challenges the property sector for the poor alignment of returns to securityholders and returns to executives over the past five years. The Global Financial Crisis occurred after sharp rises in pay packages for senior executives in a sector that had been characterised by large cash bonuses; this meant senior management costs had been reset at a higher level just prior to the crisis and executives had limited exposure to the substantial declines in security prices that have occurred since December 2007 (the S&P/ASX 200 A-REIT Index is still more than 60 percent below the levels reached in early December 2007).[1]

Pay in the sector in recent years, even as it has slowly recovered, has continued to attract investor ire. In the internally managed entities in the Top 200 that have not undergone near total reorganisation in recent years - Abacus, Australand, Charter Hall, Dexus, FKP, Goodman Group, GPT, Mirvac, Stockland and Westfield – most have incurred substantial against votes on remuneration resolutions at one AGM or more since 2009. In 2012, Dexus and Stockland announced remuneration restructures, in Dexus' case following a substantial against vote at its 2011 AGM. Australand restructured pay in 2011; which followed the decision by Mirvac's then CEO to accept a 25 percent reduction in his salary in early 2011 in response to investor anger.

In 2012, there are three major issues of potential concern with pay in the property sector: Earnings adjustments that create perverse incentives or shield management from the impact of poor decisions; lack of alignment with securityholders and the quantum of executive pay.

'Earnings before bad stuff'[2]

Nearly every property entity in the S&P/ASX 200 adjusts statutory profit numbers for reporting to the market and incentive purposes (the exception is Lend Lease). There is an obvious rationale for adjustment – under A-IFRS, investment property must be 'marked to market' at each balance date and these unrealised gains or losses in the value of the property portfolio are reported in the income statement. Outside of this obvious case there are also good reasons why all listed entities may wish to adjust earnings to account for discontinued operations, acquisitions, restructures or gains or losses on sale of operations.[3]

Many of the adjustments made by Australian property entities however either create perverse incentives for management or shield management from costs to securityholders as a result of management actions. A classic case is the widespread practice of excluding amortisation of lease incentives – payments or

[1] The pay practices of the listed property sector in Australia immediately before and after the GFC are summarised in a paper by ISS, 'Pay practices in the Australian property sector', published in July 2010.

[2] This phrase to describe adjusted or pro forma earnings was popularised in the US by the former chief accountant of the SEC, Lynn Turner.

[3] Although for property entities gains or losses on sale of property holdings are, depending on the transaction and the entity, part of day-to-day operations.

other inducements such as fit-outs offered to tenants as part of lease negotiations – from 'underlying earnings'. If lease incentives involve substantial costs to securityholders then excluding these from the earnings figures used to determine management incentives – especially if separate awards are made based on occupancy or renewal rates – may encourage management to overpay for leases (FKP is excluded from the sample as it is primarily a retirement community operator as is Centro Retail given the substantial restructure that created it occurred midway through its 2012 financial year).

Table 1: Exclusion of lease incentives from adjusted profit

Entity	Lease incentives amortisation excluded	As % of adjusted profit	Adjusted profit terminology
ABP	No	N/A	'Underlying profit'
ALZ	No	N/A	'Operating profit'
CHC	Yes	1.9%	'Operating profit'
DXS	Yes	17.1%	'Funds from operations' (FFO)
GMG	Yes	Negligible	'Operating profit'
GPT[4]	Yes	4.4%	'Realised operating income'
MGR	Yes	3.9%	'Operating profit'
SGP	No	N/A	'Underlying profit'
WDC[5]	Yes	5.3%	'FFO'

Lease incentives are the most common recurring expense excluded from adjusted earnings by property entities. More significant in terms of expense to securityholders in recent years has been the invariable exclusion of inventory or other asset impairments from adjusted earnings and therefore bonus calculations. For the 12 months to 31 December for example, Australand excluded inventory impairments of $30 million from operating profit; while Charter Hall, Stockland, Mirvac and Goodman Group all excluded significant inventory impairments from their adjusted profit figures for the 12 months to 30 June 2012. These impairments represent real losses for securityholders in these entities and in many cases the inventory impaired includes capitalised interest: As at 30 June 2012, for example, Mirvac's current inventory of $404 million included capitalised interest of $63 million.

It should be noted that there are exceptions to the exclusion of negative items representing real costs to securityholders from adjusted profit. Charter Hall in its 2012 operating profit did include net negative items of $8.7 million including a $14 million provision for the clawback of a performance fee paid in prior years at an unlisted fund it manages.

[4] For six months to 30 June 2012.

[5] For six months to 30 June 2012. At Westfield lease incentives are described as 'tenant allowances'.

Suggestions for change:

- Include amortisation of lease incentives in adjusted earnings figures
- Do not routinely exclude inventory or asset impairments from adjusted earnings for incentive purposes – especially impairments relating to actions of incumbent management
- Writedowns of assets acquired for cash are not non-cash expenses
- The larger the negative exclusion, the greater justification required

Securityholder alignment

Earnings adjustments for incentive purposes feed into the lack of alignment between returns to securityholders and returns to executives across the property sector. The other major factors are fixed pay levels set in 'boom times' prior to the GFC and high cash bonuses.

The two tables below show security price movements between the relevant entity's 2007 year end – the last full year prior to the GFC – and their most recent year end compared with 'cash pay' for key management personnel (KMP).[6] The first table compares cash pay in 2007 and their most recent financial year at those entities where the CEO did not change between January 2008 and December 2009 and the second makes the comparison for those groups where the CEO did change during this period.[7] The security prices in bold indicate adjustments to reflect security consolidations between 2007 and 2012.

Table 2: Securityholder returns and KMP cash pay 2007 to present – no GFC CEO change

Entity	KMP cash pay last FY	FY end security price	2007 KMP cash pay	2007 FY end security price
ABP	$6.312m	**$2.04**	$4.997m	**$9.90**
ALZ	$6.522m	**$2.40**	$9.128m	**$11.60**
CHC	$5.868m	**$2.27**	$2.613m	**$11.36**
DXS	$12.714m	$0.93	$5.752m	$1.97
FKP	$4.118m	$0.38	$7.272m	$7.30
GMG	$17.1m	**$3.67**	$14.3m	**$33.60**
SGP	$10.382m	$3.08	$15.096m	$8.15
WDC	$34.238m	$10.308	$41.612m	$21.00

[6] Cash pay is statutory pay excluding security based expenses, and in the case of Dexus, 'long term benefits' relating to their cash delivered deferred bonus plan.

[7] Centro Retail is excluded as no meaningful comparison between Centro 2012 and Centro 2007 is possible given the debt driven restructuring between 2008 and 2011.

[8] The Westfield 2011 security price has been adjusted to account for the impact of the Westfield Retail Trust distribution by simply adding the WRT security price as at the last trading day for the 2011 financial year to that of Westfield.

Table 3: Securityholder returns and KMP cash pay 2007 to present – GFC CEO change

Entity	2012 KMP cash pay	2012 security price	2007 KMP cash pay	2007 security price
GPT	$11.487m	**$3.07**	$10.204m	**$20.20**
LLC	$17.633m	$7.20	$17.555m	$18.54
MGR	$10.4m	$1.28	$13.019m	$5.70

The best returns available to a securityholder from capital appreciation from the peer group over the period were a loss of 51 percent (at Westfield) – and this ignores the significant capital contributions a securityholder seeking to maintain their ownership interest would have been forced to make at all of the sample entities over the period.

Despite these poor returns, cash pay for KMP was higher at six of the 11 entities than in 2007 – and in the case of Westfield, much of the decline in KMP cash pay was due to the retirement of executive chairperson Frank Lowy.

At Dexus Property Group KMP cash pay in the 2012 financial year was $12.714 million, more than twice the 2007 total of $5.752 million and remains substantially higher even if the 2012 figure is adjusted for the termination payments to former CEO Victor Hoog Antink (his annual pay package rose from $2.22 million in 2007, including fixed pay of $1 million, to $4.429 million in 2011, his last full year as CEO).

Cash pay at Charter Hall also more than doubled between 2007 and 2012 despite the security price declining 80 percent; at Goodman Group KMP cash pay in 2012 was 20 percent higher than in 2007 despite an 89 percent decline in the security price.

Cash pay levels have been supported by persistent bonuses which until very recently were invariably delivered only in cash. Over the most recent three financial years every sample entity has paid a substantial proportion of bonuses to executive KMP with the exception of FKP in 2012 which paid no bonuses (the group announced a major capital raising shortly after its 2012 financial year end to reduce debt levels).

Bonuses have been most persistent at Dexus, Lend Lease and Westfield where in every case an average of at least 75 percent of maximum bonuses has been paid every year for the past three years. In Westfield's case, the 2009 financial year was the only year since the creation of the Westfield Group when bonuses were not paid in full to all disclosed senior executives.

Table 4: Average executive KMP bonuses in property sector

Entity	Bonus as a % of max. most recent year	Year prior	Two years ago
ABP	Not disclosed	Not disclosed	Not disclosed
ALZ	59%	87%	49%
CHC	29%	72%	Not disclosed
GPT	92%	91%	47%
DXS[9]	88%	83%	99%
FKP[10]	0%	42%	47%
GMG	Bonus uncapped	Bonus uncapped	Bonus uncapped
LLC	80%	83%	76%
MGR	43%	27%	54%
SGP[11]	39%	58%	55%
WDC	100%	100%	93%

Bonus persistence is partially explained by the pervasive use of balanced scorecard approaches to bonuses which do not require minimum financial performance criteria to be achieved – at Stockland in 2012 for example the underlying earnings per security target was not achieved but other targets were.

Bonuses can also be explained at least in part by financial targets that are either not sufficiently demanding and which are made more likely to be achieved by the exclusion of negative items directly attributable to management decisions.

Post GFC there are small signs of changes in bonus practices:

- At Stockland and GPT, maximum bonus potentials were substantially reduced, although in neither case were the maximum bonus potentials – set at 200 percent of fixed pay for the CEO for example – considered likely to be achieved.

- Goodman Group has moved away from its pre-GFC focus on return on equity towards underlying earnings while Lend Lease has substantially increased bonus deferral into equity from approximately one-third of bonuses prior to 2010 to 50 percent.

Australand, despite introducing bonus deferral for the 2011 financial year, effectively funded it by increasing bonus potential for senior executives. Australand was one of several property entities – Dexus, Stockland, Mirvac and Charter Hall are others - to have recently introduced mandatory deferral of a proportion of bonuses into equity vesting over time and in some cases subject to clawback provisions.

[9] Dexus proportions in 2011 and 2010 are CEO outcomes.

[10] FKP figures for 2011 and 2010 estimated based on CEO outcome.

[11] Stockland reduced executive maximum bonus potential between 2011 and 2012 so the decline in bonus was greater than it appears. As an example, the CEO's bonus fell from $2.2 million to $665,000.

Small potential bonuses based on achievement of modest financial targets are arguably a reasonable approach for much of the S&P/ASX 200 property sector which have predictable revenue and earnings. There is however no evidence to suggest property sector bonuses are small relative to other ASX listed entities and some entities – especially Goodman Group but to some extent Lend Lease – pay bonuses that resemble those paid at pure financial firms such as investment banks (Goodman Group's bonuses for executives appear for example to be uncapped).

Long term incentives: Some form of alignment

In contrast to cash pay, long term incentives have provided reasonable alignment between executives and securityholders in property entities over the past three years. Long term incentives have, outside of Westfield – the best performed entity in the sector – failed to vest or even on vesting have delivered relatively minimal value.

Of the 11 sample entities excluding Centro, there have only been two cases over their three most recent financial years where realised pay – the vested value of equity incentives plus cash pay – has been higher than statutory pay (which includes the amortised estimated value of equity incentives at the time of grant).[12]

Table 5 shows which entities have had equity incentives vest under long term incentive allocations in their most recent three financial years and the proportion vested (in this case, vesting refers to the performance hurdle being achieved – Goodman Group and Westfield during the period operated LTI schemes which required continued service after the hurdle was met in order for vesting to occur).

Table 5 also excludes vesting of deferred bonus equity allocations although outside of Lend Lease and Westfield, bonus deferral was rare prior to 2011 and 2012. It illustrates the better alignment between LTI vesting – however structured – and securityholder returns over the past three years when compared to annual bonuses.

[12] This value is accrued over the vesting period – and in the case of equity incentives subject to an earnings hurdle can be reversed if the hurdles are unlikely to be achieved.

Table 5: LTI vesting at S&P/ASX 200 property entities since 2010

Entity	Most recent year: Proportion of LTI vested	Year prior	Two years ago
ABP[13]	0%	0%	0%
ALZ	59%	9%	17%
CHC[14]	97%	0%	0%
GPT	0%	0%	0%
DXS[15]	N/A	N/A	N/A
FKP[16]	0%	0%	0%
GMG[17]	100%	0%	0%
LLC[18]	48%	0%	0%
MGR	38%	0%	25%
SGP	0%	50%	50%
WDC[19]	67%	83%	57%

Goodman Group is the only entity where LTI hurdles were met in full over the three year sample period, in 2012. This particular allocation was split evenly between TSR and EPS hurdles although Goodman now weights LTI allocations towards EPS hurdles. For this particular allocation performance was assessed over a three year period beginning during the depths of Goodman's difficulties during the GFC.

[13] In 2009 and 2012 Abacus cancelled outstanding equity incentives on the grounds they were unlikely to deliver value to executives.

[14] The equity allocations made in the 2010 financial year due to vest on 1 July 2012 vested in full but are not included in the table. The first tranche of the 2011 allocations did not vest when tested on 1 July 2012.

[15] Dexus operated a deferred bonus as its LTI prior to the 2013 financial year with cash allocations varying in value against two indices. At the end of the 2012 year former CEO Victor Hoog Antink received a vested payment of $1.791 million (initial allocation in July 2009: $915,000); in 2011 $1.274 million (2008: $900,000) and in 2010 $711,000 (2007: $650,000).

[16] Options granted prior to the GFC at FKP vested in 2010 and 2011 but had no value on vesting.

[17] The CEO will receive 780,000 shares over the period September 2012 to September 2014 subject only to continued employment. These had a value as at 30 June 2012 of $2.863 million.

[18] Excludes vesting of securities vesting based only on continued service.

[19] Vested equity incentives under the Westfield LTI prior to 2012 accrued based on performance against hurdles measured in a single year and then vesting over three to four years based on continued service. The cumulative value of the allocation to the co-CEOs at the end of the 2011 financial year was $3.779 million.

Suggestions:

- To improve securityholder alignment, weight pay away from annual bonuses and towards LTIs
- Bonus deferral into equity is better than paying bonuses in cash but is not a substitute for LTIs in terms of alignment
- Do not fund bonus deferral by reducing LTI weightings

Quantum

Institutional investors are increasingly prepared to provide robust feedback to directors over the level of executive pay, and especially further increases. This is particularly acute in the property sector where most entities have now reduced their growth forecasts as part of renewed conservatism.

Across the sample there have been several cases where CEO fixed pay has fallen sharply – at Westfield, with the retirement of Frank Lowy and his replacement by his two sons with no increases to the sons' remuneration – and at Mirvac where the former CEO voluntarily accepted a pay cut in 2011, with this lower pay level reflected in the terms for his successor.

At other entities pay levels have been – slightly – reduced through new appointments, with the new CEO of Dexus receiving fixed pay 10 percent below that of his predecessor (ignoring the value of sign-on incentives). In the case of Abacus and Goodman, CEO and CFO fixed pay has been held steady over three years, effectively reducing 'relative' pay.

At other entities however CEO and CFO fixed pay – and their total potential remuneration expense, given incentive pay and termination entitlements are typically set based on fixed pay – has risen sharply over the past three years.

- At Lend Lease, the CEO's fixed pay increased 20 percent between 2009 and 2012, that of GPT's CEO by 21 percent and at Charter Hall the combined CEOs' fixed pay increased 40 percent.

- At Dexus, CFO fixed pay has increased 36 percent and 23 percent at Australand. Pay rises for executives below CEO level are often not an area of focus for investors but in a low return environment any pay increase above forecast returns (or inflation) is likely to attract attention.

In some cases, fixed pay also understates the true recurring cost of an executive to securityholders: For example, Westfield's CFO, together with the head of Australia/US and the head of Europe, also hold substantial retention incentives vesting based on five years' service to 2015 which effectively replaced allocations in 2006 that vested at the end of 2010. The 2011 allocations had grant date estimated values of $5.9 million.

Table 6: Property CEO and CFO fixed pay movements over past three years

Entity	Current CEO fixed pay	CEO fixed pay: two years ago	Current CFO fixed pay	CFO fixed pay: two years ago
ABP	$1.2m	$1.2m	$490,000	$470,000
ALZ	$1.35m	$1.25m	$735,000	$600,000
CHC[20]	$2.1m	$1.5m	N/A	$425,000
CRF[21]	$900,000	N/A	$700,000	N/A
GPT[22]	$1.45m	$1.2m	$830,000	N/A
DXS	$1.4m	$1.3m	$750,000	$550,000
FKP[23]	N/A	$1.59m	$500,000	$700,000
GMG[24]	$1.4m	$1.4m	$600,000	$600,000
LLC	$2.037m	$1.6m	$900,000	N/A
MGR[25]	$1.5m	$2m	$700,00	$650,000
SGP	$1.9m	$1.9m	$875,000	N/A
WDC[26]	$5m	$9m	$1.4m	$1.2m

At many property entities, especially those at the bottom end of the S&P/ASX 200, KMP cash expense is material in the context of operating cash flow and/or distributions. Table 7 compares KMP cash expense in the most recent financial year as a proportion of operating cash flow and distributions (Lend Lease is included although these measures are not necessarily appropriate indicators given its greater focus than other sample entities on construction, contracting and development activities rather than property ownership).[27]

[20] Figure is the combined CEOs fixed pay.

[21] Figure for CFO is estimated.

[22] The CEO's fixed pay is for the 12 months to 31 December 2012; the CFO's is that for the 12 months to 31 December 2011.

[23] FKP's former CEO, Peter Brown, departed in September 2012. The CFO figures are estimated.

[24] Figure for the CFO in 2012 is estimated.

[25] Does not include the value of a loan extended to the outgoing CEO which is partially forgiven over a four year period.

[26] The current CEO figure is the combined pay of the co-CEOs assuming 1 USD = 1 AUD. The figures for the CFO does not include the value of retention incentives vesting over the five years to January 2011 which had a value of $4.984 million on vesting and a new allocation vesting over the five years to December 2015 with a value at the end of 2011 of $6.029 million. If these are included on a straight line allocation the CFO's 2009 fixed pay was approximately $2.2 million and his 2011 fixed pay was approximately $2.6 million.

[27] Lend Lease had negative operating cash flow in 2012 and 2011 although free cash flow in 2012 was strongly positive.

Table 7: KMP cash pay relative to cash flow and distributions

Entity	KMP cash pay last FY	As % of OCF	As % of distributions[28]
ABP	$6.312m	7.32%	9.3%
ALZ	$6.522m	11.34%	5.26%
CHC	$5.868m	7.43%	10.9%
DXS	$12.714m	3.65%	4.94%
FKP[29]	$4.118m	N/A	12.22%
GMG	$17.1m	6.41%	6.04%
GPT	$11.487m	2.798%	3.52%
LLC[30]	$17.633m	N/A	8.12%
MGR	$10.4m	3.28%	3.62%
SGP	$10.382m	2.6%	1.91%
WDC[31]	$34.238m	1.95%	3.07%

There is a clear benefit from size in that the entities where KMP cash expense is the smallest proportion of cash flow and distributions are those that are largest – at Westfield, Stockland, Mirvac and GPT KMP cash expense is less than 5 percent of both cash flow and distributions.

At Goodman however, KMP cash expense is well above 5 percent of both measures and even at Westfield, KMP cash expense in 2011 was over 3 percent of total distributions. This helps explain investor sensitivity to pay levels in the property sector as executive pay is significant in terms of recurring cash generated and cash payments to securityholders – and increases in executive pay will reduce cash available for securityholders.

Suggestions:

- Manage executive expenses as a cost like any other
- Be mindful of the impact of fixed pay increases on total potential remuneration expense
- Limiting executive pay increases can have a significant impact over time on distributions to securityholders

[28] Distributions are distributions to securityholders and are on an accruals basis ie. including the final distribution paid subsequent to year end.

[29] FKP had negative operating cash flow in 2012.

[30] See n. 27.

[31] Operating cash flow adjusted to include interest paid and received.

Appendix: Summary Executive Pay Structure For Sample S&P/ASX 200 Property

Entity	Remuneration mix – target performance		Short term incentives			Long term incentives			
	CEO	CFO	Maximum potential	Performance criteria	Deferral	Performance criteria	Peer Group	Vesting Period	Vehicle
ABP	STI: Not disclosed LTI: N/A. Abacus cancelled its LTI in 2012 as unlikely to deliver value.	STI: 33% of fixed pay LTI: N/A. Abacus cancelled its LTI in 2012 as unlikely to deliver value.	Not disclosed	Bonus pool accrues based on underlying profit. Bonuses are then awarded based on underlying profit contribution (20% to 40% of assessment depending on executive) and non-financial measures.	No	Presently developing a new LTI approach for 2013.	N/A	N/A	N/A
ALZ	STI: 100% of fixed pay LTI: 80% of fixed pay	Other senior executives. STI: 70% of fixed pay LTI: 50% of fixed pay	CEO: 120% of fixed pay Other executives: 94.5% of fixed pay	Bonuses based 50% - 60% on financial measures (in 2011, EPS, ROE and capital targets as well as divisional measures) and the remainder on non-financial measures including safety.	CEO: 20% of bonus deferred into equity vesting after two years. Senior executives: 20% deferral into equity for one year.	For the 2012 LTI, 40% subject to relative TSR and 60% to return on invested capital (ROIC). TSR: Vesting commences for median performance, at which point half vests. Full vesting for performance at the 75th percentile. ROIC: Vesting commences for ROIC equal to average cost of capital (half vest at this point). Full vesting for ROIC 10% above cost of capital.	S&P/ASX 200 A-REIT Index	Three years	Zero exercise price options

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Appendix: Summary Executive Pay Structure For Sample S&P/ASX 200 Property

Entity	Remuneration mix – target performance		Short term incentives			Long term incentives			
CHC	STI: 50% of fixed pay LTI: 50% of fixed pay	STI: 50% of fixed pay LTI: 50% of fixed pay	CEOs: 50% of fixed pay CFO: 50% of fixed pay Other senior executives: 33% of fixed pay	Bonuses funded from a pool based on achievement of an EPS target. Individual bonuses are based 50% on financial (EPS and expenses) and 50% non-financial.	Half of any bonus deferred into equity vesting in two equal annual tranches.	For the 2012 LTI, 50% subject to relative TSR and 50% subject to absolute TSR growth. Relative TSR: Vesting commences for median performance, at which point half vests. Full vesting for performance at the 75th percentile. Absolute TSR: Vesting commences for growth in TSR of 10% per annum (half vest at this point). Full vesting for TSR of 13% per annum (for 2013; 12% for 2012).	S&P/ASX 200 A-REIT Index	Three years	Zero exercise price options

Appendix: Summary Executive Pay Structure For Sample S&P/ASX 200 Property

Entity	Remuneration mix – target performance		Short term incentives			Long term incentives			
CRF	STI: 100% of fixed pay LTI: 120% of fixed pay	STI: 50% of fixed pay LTI: CFO did not receive 2012 LTI allocation due to start date.	CEO: 150% of fixed pay CFO: 75% of fixed pay	Not relevant due to transitional nature of 2012 for CRF.	No	For the 2012 LTI, 50% subject to relative TSR and 50% subject to underlying EPS growth. Relative TSR: Vesting commences for median performance, at which point half vests. Full vesting for performance at the 75th percentile. EPS: Vesting based on performance against undisclosed targets (disclosure to be made retrospectively)	S&P/ASX 200 A-REIT Index	Three years (for initial allocation two years and seven months)	Zero exercise price options

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Appendix: Summary Executive Pay Structure For Sample S&P/ASX 200 Property

Entity	Remuneration mix – target performance		Short term incentives			Long term incentives			
DXS	STI: 100% of fixed pay LTI: 85% of fixed pay	STI: 100% of fixed pay LTI: 50%	CEO: 125% of fixed pay CFO: 125% of fixed pay	Balanced scorecard with financial performance accounting for 40%. Financial performance appears to be based on assessment relative to peers.	25% now deferred into equity vesting in equal annual instalments over two years.	From the 2013 year, half of LTI allocations based on relative TSR; 25% on funds from operations (FFO) and 25% on ROE. Relative TSR: Vesting commences for median performance, at which point half vests. Full vesting for performance at the 75th percentile. FFO and ROE: Progressive vesting against targets set by the board.	Peer group is five listed REITs (WRT, IOF, CPA, CFX, GPT) and five unlisted REITs (ISPT, AMP Office, GWOF, APPF, Investa).	Half vesting over three years and half over four years.	Zero exercise price options
FKP	STI: 100% of fixed pay LTI: N/A (outgoing CEO does not participate in LTI)	STI: 50% of fixed pay LTI: No LTI allocation since 2011.	100% of fixed pay	Meet profit guidance (50%) and other 50% based on various "quantitative and qualitative" measures	30% of any bonus above $100,000 deferred in cash for one year.	No formal LTI scheme; allocation to executive director at 2011 AGM had half vesting based on TSR relative to a peer group and half vesting based on performance against underlying profit targets.	S&P/ASX 200 A-REIT Index	2 years to 30 June 2013	Options

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Appendix: Summary Executive Pay Structure For Sample S&P/ASX 200 Property

Entity	Remuneration mix – target performance		Short term incentives			Long term incentives			
GMG	STI: N/A – bonuses are uncapped LTI: 150% of fixed pay (based on 2012 allocation)	STI: N/A – bonuses are uncapped LTI:120% of fixed pay (based on 2012 allocation)	Bonuses appear to be uncapped	Bonus pool created based on aggregate target bonus amounts and underlying profit against target. Individual bonuses then awarded based on financial and non-financial performance criteria for individuals.	No	In 2012, 75% of LTI allocations subject to underlying EPS targets and 25% assessed on relative TSR. EPS: Vesting based on cumulative performance against three annual targets; 100% vesting if target achieved. TSR: Vesting commences for median performance, at which point half vests. Full vesting for performance at the 75th percentile.	S&P/ASX 200 Index	Performance is assessed over three years. Vested equity then vests in three equal annual tranches.	Zero exercise price options

Appendix: Summary Executive Pay Structure For Sample S&P/ASX 200 Property

Entity	Remuneration mix – target performance		Short term incentives			Long term incentives			
GPT	STI: 100% of fixed pay LTI: 150% of fixed pay	STI: 80% of fixed pay LTI:50% of fixed pay	STI: 125% for CEO; up to 100% for other senior executives.	60% - 70% of bonus based on financial measures. Chief group financial measure relates to underlying EPS. Remainder based on non-financial measures.	No	One-third based on relative TSR; one-third on underlying EPS growth; one-third on total return. TSR: Vesting commences for median performance, at which point half vests. Full vesting for performance at the 75th percentile. EPS: Progressive vesting on underlying EPS growth against CPI linked targets. Total return: Progressive vesting on growth in NTA.	The eight largest constituents of the S&P/ASX 200 A-REIT Index	Three years	Zero exercise price options
LLC	STI: 150% of fixed pay LTI: 65% of fixed pay	STI: 90% of fixed pay LTI: N/A	Maximum STI is 150% of target	Bonus funded from pool determined by profit versus target. Individual bonuses based on balanced scorecard with 50% linked to financial measures for the CEO.	50% into equity, with half deferred amount vesting after one year and the remainder after two.	Relative TSR, with half vesting at 50th percentile and full vesting at the 75th percentile.	Companies in the S&P/ASX 100 Index	Half have performance assessed over three years; half over four years.	Zero exercise price options

Appendix: Summary Executive Pay Structure For Sample S&P/ASX 200 Property

Entity	Remuneration mix – target performance		Short term incentives			Long term incentives			
MGR	STI: 75% of fixed pay LTI: 150% of fixed pay	STI: 70% of fixed pay LTI: 100% of fixed pay	Maximum STI is 150% of fixed pay for CEO and 140% for other executives.	Bonus funded from pool based on achievement of earnings at 90% of budget. Individual bonuses based on scorecard set by reference to group or divisional financial performance (70% of total; measured by earnings and ROA), customer satisfaction, employee engagement and sustainability.	From 2013, 25% will be delivered as equity to be retained until minimum equity holding target is achieved.	Relative TSR for half of LTI allocations and ROE for the remainder. TSR: Vesting commences for median performance, at which point half vests. Full vesting for performance at the 75th percentile. ROE: Progressive vesting based on average annual ROE against inflation linked targets.	S&P/ASX 200 A-REIT Index plus Lend Lease.	Three years	Zero exercise price options

Appendix: Summary Executive Pay Structure For Sample S&P/ASX 200 Property

Entity	Remuneration mix – target performance		Short term incentives			Long term incentives			
SGP	STI: 100% of fixed pay LTI: 90% of fixed pay (no CEO LTI allocation in 2011 or 2012; retiring in 2013)	STI: 80% of fixed pay LTI: 60% of fixed pay	CEO: 125% of fixed pay CFO: 100% of fixed pay	Bonus funded from pool based on assessment of performance against balanced scorecard of measures and capped at 5% of underlying profit. 75% to financial, business and customer satisfaction and remainder to "organisational performance". The CEO had 40% of his 2012 STI based on achievement of a disclosed underlying EPS target.	Minimum one-third (and all bonus amounts above target) deferred into securities vesting in equal annual tranches over two years.	Relative TSR for half of LTI allocations and underlying EPS for the remainder. TSR: Vesting commences for performance in line with the peer index at which point half vests, with full vesting for TSR 10% above that of the peer index. Underlying EPS: From 2013 on, performance against three year EPS growth target.	S&P/ASX A-REIT Index	Performance is assessed over three years; half the ZEPOs then vest and the remainder are subject to a 12 month holding lock.	Zero exercise price options

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Appendix: Summary Executive Pay Structure For Sample S&P/ASX 200 Property

Entity	Remuneration mix – target performance		Short term incentives			Long term incentives			
WDC	STI: Approx. 150% of fixed pay (estimated across co-CEOs) LTI: Approx. 80% of fixed pay (estimated from co-CEOs' allocations)	STI: 100% of fixed pay LTI: 70% of fixed pay (estimated from 2012 allocation)	Target is maximum	Undisclosed	Approx. 20% - 25% (estimated from allocations). Vesting three years after allocation.	Funds from operations (FFO) per security target for 75% of 2012 allocations and 25% on ROCE hurdle. FFO: Vesting based on performance against a range of targets set by the board and disclosed retrospectively. ROCE: Vesting based on performance against average annual undisclosed targets set by the board.	N/A	FFO: Performance assessed over single year and vesting in two equal tranches over three and four years. ROCE: Performance assessed over four years.	Zero exercise price options

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