Asset Management

The state of pay - real estate executive remuneration

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PricewaterhouseCoopers

The State of Pay – Real Estate Executive Remuneration

The companies in this sector have until recently enjoyed a marked run of success, which has flowed through to the level of bonuses and incentives paid to the executives who run these companies.

Our recent Report titled **"The State of Pay – Real Estate Executive Remuneration"** shows that with the very different economic environment, salary and bonus levels are starting to fall markedly.

One school of thought is that one takes the rough with the smooth and that it is inevitable that reward follows the same cycle as the overall property business cycle.

However, in practice, companies in these situations become concerned that executives may get poached by competitors, particularly those who have demonstrated a strong track record. In addition, there is a desire by companies and their shareholders to motivate executives to maximise and restore value over a difficult economic period.

The nature of the challenges in the current environment is different from the recent past and therefore it is likely that existing incentive structures will be targeting the wrong performance measures or levels of performance for today's company strategy where, for example, growth may take second place to free cash flow and debt management.

In difficult economic times incentives become even more important, due to the justified difficulty of getting shareholder support for increasing salary and fixed costs at a time of falling returns. This emphasis will increase when one of the longer term benefits pension will lose a significant amount of its future value from April 2011, as tax relief is reduced.

It is therefore our view that in the near future the key reward issues for the sector will be:

- the design of short- and long-term incentive arrangements which strike an appropriate balance between the expectations of executives, the company and its particular strategy, and the prescriptive requirements of institutional shareholders and their representative bodies all in light of the challenging market conditions; and
- the requirement for the performance conditions to support company strategy rather than follow market practice, which is a positive development from the one-size-fits-all approach, which has historically been far too prevalent.

These incentive arrangements should support the strategy of the individual company and therefore there should be far more variation in types and levels of performance condition. The challenge of this change should not be underestimated, as like other sectors, too much incentive design has been overly dominated by market practice.

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