

Governance at Lodging REITs: 2018 Proxy Season Wrap-up

- **Shareholders show displeasure with lodging REIT directors.** Incumbent directors serving on nominating and governance committees at lodging REITs continued to face opposition in 2018.
- **Say on Pay votes warrant attention.** The 2018 proxy season saw a sharp increase in the percentage of lodging REITs facing greater than normal opposition in Say on Pay votes.
- **Hospitality Properties Trust (HPT)** may be the poster child for poor corporate governance practices in the lodging REIT world. The company has been a proxy access target in each of the last two years.
- **Human capital management proposal makes a splash at Host Hotels & Resorts, Inc.** A shareholder proposal calling on the company to issue an annual sustainability report received 31.1% support. With institutional investor support for E&S proposals rising from 19% in 2014 to 29% in 2018, lodging REITs face rising shareholder expectations regarding corporate governance.
- Since 2012, lodging REITs have adopted a number of corporate governance reforms as a result of shareholder engagement. The human capital management proposal at Host in 2018 marks a shift in shareholder focus on lodging REIT corporate governance.

Shareholder support for directors at lodging REITs lags broader issuer universe

While the average support directors nominated for re/election at U.S.-based lodging REITs have slightly trailed the broader universe of U.S.-based issuers over the last three proxy seasons (95.1% vs 93.2% in 2018), a larger gap has emerged for those received support at the 95% level.¹

Chart 1 depicts an apparent sea change in voting patterns between the 2016 and 2017 proxy seasons:

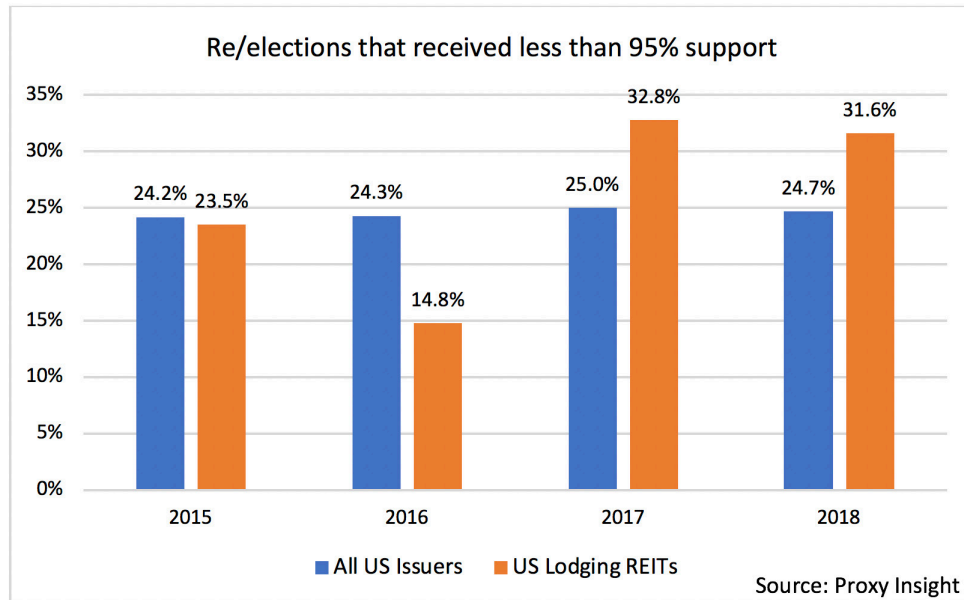


Chart 1

As noted in [our 2017 proxy season wrap-up](#), Institutional Shareholder Services (ISS) [adopted a policy](#) ahead of the 2017 season recommending shareholders vote against directors serving on a company’s nominating and governance committee when the company limits shareholders’ right to amend bylaws, either through an “outright prohibition on the submission of binding shareholder proposals, or share ownership requirements or time holding requirements in excess of SEC Rule 14a-8.”

We found that the average support for incumbent directors serving on the nominating and governance committees at U.S.-based lodging REITs in 2017 fell approximately 25 percentage points — to an average of about 66% — from the previous uncontested election.

Incumbent directors serving on nominating and governance committees at U.S.-based lodging REITs continued to face scrutiny in 2018:

- At **Braemar Hotels & Resorts Inc.** (f/k/a Ashford Hospitality Prime, Inc.), incumbent Nominating and Corporate Governance Committee members Stefani Carter and Matthew Rinaldi had 26.4% and 25.3% of shareholder votes, respectively, cast against them. The inability of shareholders to amend the bylaws was cited by several investors as the rationale for opposing these directors.²
- At **Chatham Lodging Trust**, incumbent Nominating and Corporate Governance Committee members Thomas Crocker and Gerald Goldsmith had 37.8% and 29.4% of

shareholder votes, respectively, cast against them. The inability of shareholders to amend the bylaws and the lack of a single female director were cited by investors in opposing these directors.³

- At **Hospitality Properties Trust (HPT)**, a whopping 81.9% of shareholder votes were cast against incumbent Nominating and Governance Committee member William Lamkin. It was the second year in a row in which an HPT director did not receive majority support. In opposing the directors, ongoing compensation concerns, bylaw changes that eroded shareholders’ rights, and a failure to implement a UNITE HERE proposal that passed in 2016 and 2017, were among the rationales cited by investors.⁴ Despite the overwhelming opposition, the Board elected Mr. Lamkin for another three-year term.⁵
- At **Summit Hotel Properties, Inc.**, Nominating and Corporate Governance Committee members Bjorn Hanson and Thomas Storey had 24.1% and 22.1% of shareholder votes, respectively, cast against them. The inability of shareholders to amend the bylaws was cited by several investors.⁶
- At **Xenia Hotels & Resorts, Inc.**, Nominating and Corporate Governance Committee members John Alschuler, Beverly Goulet, and Mary McCormick had 21.8%, 21.7%, and 22.4% of shareholder votes, respectively, cast against them. The inability of shareholders to amend the bylaws was cited by several investors.⁷

Say-on-Pay votes warrant attention

While the percentage of issuers falling below the 95% support threshold on Say on Pay votes tends to be higher and more volatile than voting in director elections, the sharp increase in U.S.-based lodging REITs who fell below this level in 2018 (Chart 2) warrants further attention.

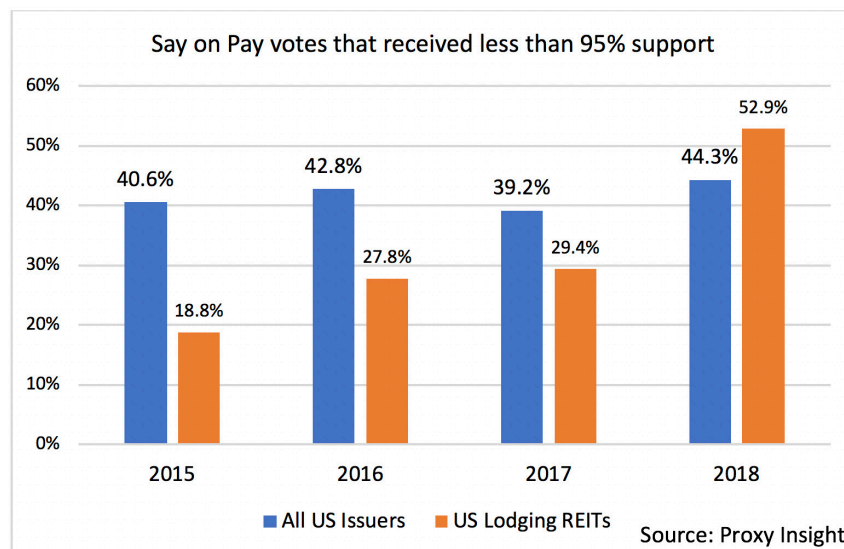


Chart 2

Below we'll review some of the more prominent votes against:

- With 58.4% of votes cast against, **Hospitality Properties Trust** did not receive majority support for the advisory vote to ratify NEO compensation.⁸ Poor overall design, insufficient response to prior Say on Pay votes, a lack of disclosure regarding compensation arrangements between executives and the external manager, and providing information too close to the day of the meeting were among the rationales provided by investors in opposing the ratification.⁹
- Shareholders at **Hersha Hospitality Trust** voted 39.4% of shares against ratification of the NEO compensation. Excessive severance benefits and insufficient pay for performance alignment were among the reason cited by investors.¹⁰
- Shareholders at **LaSalle Hotel Properties** voted 23.4% of shares against ratification of the NEO compensation, also citing excessing severance benefits and insufficient pay for performance alignment.¹¹

HPT becomes a Proxy Access target

Hospitality Properties Trust may be the poster child for poor corporate governance practices in the lodging REIT world. Therefore, it is perhaps not surprising that the company has been a proxy access target in each of the last two years.

- In 2017, the Comptroller of the City New York's proposal that the company adopt a proxy access bylaw received 84.8% support.
- In 2018, the Comptroller reintroduced proxy access and garnered 85.0% support.¹²

Human capital management proposal makes a splash at Host

Corporate governance failures of hotel owners are centerstage this year as 7,800 hotel workers held strike votes at Marriott-operated hotels across four of the largest tourism destination locations in North America, covering twenty hotels in Waikiki, Maui, San Francisco, and Boston. Approximately 7,700 workers in Boston, Detroit, Hawaii, Oakland, San Francisco, San Diego, San Jose were on strike as of early October 2018.

At Host Hotels & Resorts, Inc. (Host), UNITE HERE submitted a proposal that the company issue an annual sustainability report with due diligence about operations at Host's properties, including the impact on investors of hotel operators' environmental, human rights, and labor practices.¹³

Hotel owners are reporting on the environmental footprint of hotel operations, but pay less attention to the human capital dimensions of these operations—the thousands of people providing hospitality services. Host does not presently require hotel operators to provide reporting on social or governance factors, a notable diligence gap given the centrality of guest services to Host’s business.

Shareholders recommended Host ask its hotel operators to report on environmental impacts, human rights, and labor practices at their hotels.

Despite management opposition proposal received 31.1% support.¹⁴

Institutional Investor support for environment and social proposals is on the rise, increasing from 19% in 2014 to 29% in 2018,¹⁵ suggesting that the proposal at Host in 2018 may be just the beginning for lodging REITs.

UNITE HERE Track Record

Since 2012, lodging REITs have adopted a number of shareholder-friendly reforms. In most cases, companies have elected to adopt UNITE HERE proposed reforms in the course of engagement; those proposals proceeding to a shareholder vote have generally received majority support.

In 2018, the UNITE HERE proposal that the Board of **Hospitality Properties Trust** adopt a majority vote for the election of directors received 89.8%.¹⁶

The human capital management proposal at Host also marked a shift as UNITE HERE began to increase its focus beyond governance proposals.^A

A, <https://www.hotelcorp.gov/our-record/>

Endnotes

- 1 Proxy Insight data as of October 3, 2018. The lodging REIT universe is defined here as all issuers in Proxy Insight's "REITs – Hotels & Motels" industry classification.
- 2 Proxy Insight, https://www.proxyinsight.com/members/ProposalDetail_new.aspx?meetingid=1683934&proposal_id=2198848, accessed on October 3, 2018.
- 3 Proxy Insight, https://www.proxyinsight.com/members/ProposalDetail_new.aspx?meetingid=1668679&proposal_id=2057344, accessed on October 3, 2018.
- 4 Proxy Insight, https://www.proxyinsight.com/members/ProposalDetail_new.aspx?meetingid=1675996&proposal_id=2112802, accessed on October 4, 2018.
- 5 Hospitality Properties Trust, 8-K, filed on June 14, 2018, https://www.sec.gov/Archives/edgar/data/945394/000110465918041258/a18-15498_18k.htm, accessed on October 4, 2018.
- 6 Proxy Insight, https://www.proxyinsight.com/members/ProposalDetail_new.aspx?meetingid=1669860&proposal_id=2070508, October 4, 2018.
- 7 Proxy Insight, https://www.proxyinsight.com/members/ProposalDetail_new.aspx?meetingid=1670468&proposal_id=2077112, accessed on October 4, 2018.
- 8 Proxy Insight, https://www.proxyinsight.com/members/ProposalDetail_new.aspx?meetingid=1675996&proposal_id=2112803, accessed on October 4, 2018.
- 9 Proxy Insight, https://www.proxyinsight.com/members/ProposalDetail_new.aspx?meetingid=1675996&proposal_id=2112803, accessed on October 4, 2018.
- 10 Proxy Insight, https://www.proxyinsight.com/members/ProposalDetail_new.aspx?meetingid=1674684&proposal_id=2101337, accessed on October 4, 2018.
- 11 Proxy Insight, https://www.proxyinsight.com/members/ProposalDetail_new.aspx?meetingid=1668014&proposal_id=2050057, accessed on October 4, 2018.
- 12 Proxy Insight, https://www.proxyinsight.com/members/ProposalDetail_new.aspx?meetingid=1675996&proposal_id=2112805, accessed on October 4, 2018.
- 13 Host Hotels & Resorts, Inc., DEF 14A, filed on April 6, 2018, <https://www.sec.gov/Archives/edgar/data/1070750/000119312518109348/d462861ddef14a.htm>, accessed on October 4, 2018.
- 14 Proxy Insight, https://www.proxyinsight.com/members/ProposalDetail_new.aspx?meetingid=1669659&proposal_id=2068574, accessed on October 4, 2018.
- 15 PwC and Broadridge, "2018 Proxy Season Review," October 2018, <https://www.pwc.com/us/en/governance-insights-center/publications/assets/pwc-broadridge-proxypulse-2018-proxy-season-review.pdf>, accessed on October 4, 2018.
- 16 Proxy Insight, https://www.proxyinsight.com/members/ProposalDetail_new.aspx?meetingid=1675996&proposal_id=2112806, accessed on October 4, 2018.