

Improving corporate governance at hospitality REITs: *Year 3 Progress Report*

UNITE HERE has recently concluded the third season of a focused program to improve corporate governance at lodging and hospitality REITs. Working together with a range of institutional investors, we are seeing a new, higher standard of corporate governance emerging in the sector.

Why Hospitality REITs?

We believe that transparent, accountable, stable and well-run companies are in the interest of shareholders and stakeholders alike. Our contribution to efforts to improve corporate governance has focused on a segment of the hospitality industry – the industry we best understand.

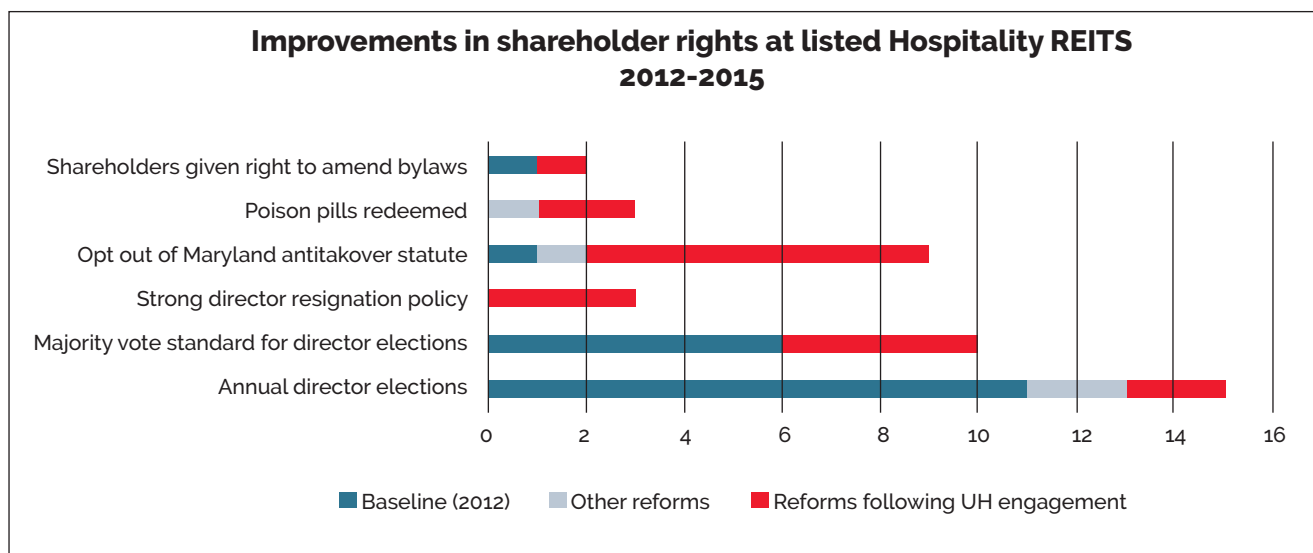
The small- and mid-cap companies in the lodging REIT sector have not typically benefited from the shareholder activism that has transformed corporate governance practices in S&P 500 companies. When we started our program, several companies had classified boards, and almost every company remained subject to potent state anti-takeover statutes.

UNITE HERE's program seeks to give hospitality REIT shareholders a voice in the use of statutory anti-takeover devices, as well as the myriad defenses put in place by companies themselves: staggered board terms, supermajority voting requirements, plurality vote standards in director elections and poison pills. Strengthening shareholder rights at lodging REITs, moreover, should help shareholders preserve strategic opportunities in a highly cyclical industry.

Tangible progress for lodging REIT shareholders since 2012

Working with a range of institutional investors, we've seen concrete improvements to shareholder rights at listed lodging REITs, with **18 separate reforms adopted at 11 of 17 listed lodging REITs.**

Our progress at a glance:



Classified boards

Between 2013 and 2015, the number of hospitality REITs with classified boards sank from 6 to 2. Two companies initiated board declassification following the submission of shareholder proposals by UNITE HERE (Felcor Lodging Trust and Lasalle Hotel Properties), while a majority of shareholders voted in support of our proposal to declassify the board of Gaming and Leisure Properties, the first US gaming REIT. Hospitality Properties Trust began declassifying its Board after a five year campaign led by an institutional investor.

Requiring majority support for director elections

Four REITs adopted majority vote thresholds for uncontested director elections upon receiving our shareholder proposals, bringing the total of hospitality REITs adhering to this standard to ten.

In the course of engagement with UNITE HERE, three REITs (Strategic Hotels, Chesapeake Lodging Trust, RLJ Lodging Trust) took the additional step of adopting strong director resignation policies, which stipulate that no director can be reappointed after receiving less than majority support in two consecutive uncontested elections.

Giving shareholders a say in the use of antitakeover statutes

Maryland's Unsolicited Takeovers Act (MUTA) allows REIT boards to unilaterally adopt numerous takeover defenses, such as a classified board, without shareholder approval.

In 2012, only one lodging REIT had opted out of the statute's provisions. Today, nine lodging REITs opt out of provisions of MUTA, seven of which opted out in response to shareholder proposals by UNITE HERE.

Only those companies opting out as a result of our engagement have agreed to require prior shareholder approval before opting back into MUTA – an essential step in truly opting out.

Five of six shareholder proposals to opt out of MUTA received the support of a majority of votes cast. The average level of support was 70%.

Strengthening right to amend bylaws

Shareholders of most listed lodging C-Corps have the right to initiate bylaw amendments, but this right is not common at lodging REITs. Without it, corporate governance reform can take years, and can be unilaterally reversed by the Board. Shareholders at one REIT (Sunstone Hotel Investors) gained the right to initiate bylaw amendments after the board unanimously recommended adopting UNITE HERE's proposal. Shareholders at three additional REITs receiving the same proposal (Host Hotels, Diamondrock Hotels and RLJ Lodging Trust) voted to recommend extending to shareholders the right to initiate bylaw amendments (49% of votes at Chesapeake Lodging Trust were cast in support of this proposal).

Shareholder approval of poison pills

Strategic Hotels decided to redeem its poison pill, and require shareholder approval of future poison pills (within 12 months of adoption), as recommended by UNITE HERE's shareholder proposal.

Continued engagement

The majority (14/18) of reforms we've seen put in place to date have been accomplished through engagement – shareholder proposals were withdrawn before a vote.

Fourteen of our proposals pursuant to SEC Rule 14a-8 have proceeded to a shareholder vote. Twelve of the fourteen (86%) received the support of a majority of votes cast, with an average of 67% of votes cast in favor. To date, four of the majority-supported proposals (33%) have been implemented. A more complete report of voting results can be found on our website, www.hotelcorp.gov.

Next steps

While we have achieved tangible improvements in shareholder rights at lodging and hospitality REITs, much work remains to be done. At several REITs, proposals supported by majority votes have not been implemented; many companies still have potent takeover defenses, limits to shareholders' ability to hold directors accountable and/or limits to shareholder rights.

UNITE HERE represents hospitality workers and is a member of the Council of Institutional Investors. Its members are beneficiaries of pension funds with over \$60 billion in assets. Since 2012, UNITE HERE has pursued a program of improving shareholder rights at hospitality REITs (see www.hotelcorp.gov).