

MSCI Standards for Real Estate Valuations

MSCI Private Real Estate Indexes

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Overview

For most financial asset classes, investment performance measurement is based upon transaction prices. The relatively low liquidity of private real estate investments renders the establishment of purely price-based property indexes problematic. As a result, the MSCI property indexes are predominantly constructed from professional valuations. The standards for the asset level valuations used in the MSCI property indexes are provided in this document.

Direct Property Valuation Standards

Real estate investment assets are not only illiquid but also extremely heterogeneous, making it difficult to establish purely price-based indexes. Only a small fraction of directly held assets are traded each year (about 5% of the MSCI Global Annual Property Index by value is sold on an annual basis).

Valuations are estimates of prices by professionally qualified valuers (externally or internally produced) based on a set of market assumptions and such recent transaction evidence as is deemed relevant. They are an essential element of financial and investor reporting for the asset class and are produced independently of their use in index construction

Despite the illiquidity and heterogeneity of real estate investments, MSCI property indexes aim to track market movement as closely as possible. MSCI therefore provides the data providers for these indexes with a clear and concise set of standards regarding the type of valuation that should be provided. These standards are based, as far as possible, upon multinational valuation and financial reporting standards.

MSCI also measures and publishes a comparison of the level of prices and values for each national market index annually. This work is reported in the Valuation and Sale Price Comparison Report, which is publicly available on the MSCI website.

The direct property asset valuations that are provided to MSCI must be produced in accordance with the following key principles.

- Valuations should be conducted at least once a year for each and every separate investment asset held within the contributing portfolio, including recent acquisitions and all assets under development or refurbishment, as well as retained investments. A higher frequency may be required for some indexes, and it should be noted that the Global Investment Performance Standards (GIPS)

require formal valuation updates (internal or external) at least once a quarter. Such a regime is also recommended, though not required, by MSCI.

- Open market valuations should be undertaken by professionally qualified and (where appropriate) nationally accredited valuers.
- An internationally recognized definition of Market Value as determined by the International Valuation Standards Committee (IVSC) and adopted by the The Royal Institution of Chartered Surveyors (RICS), the Appraisal Institute and many other national real estate standards organizations is as follows:

“The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

Neither formal accreditation nor the explicit adoption of the IVS is required by MSCI, though its use is recommended. However, a consistent approach, preferably in accordance with a national or international market valuation standard and definition, and one which aims to provide timely best estimates of open market values, is essential.

- The estimates may be produced internally rather than externally, provided that they meet the above specification and are accurately and fully reported to MSCI. However, it should be noted that GIPS now require external valuations to be performed by an independent external professionally designated, certified, or licensed commercial property valuer/appraiser at least once a year. This target is also recommended, though not required, by MSCI.
- Although internal valuations are accepted, if MSCI’s data quality assessment raises doubts about the standard of reported valuations (see MSCI Real Estate Data Provider Code of Conduct), MSCI may request documented evidence from contributors. If no evidence is provided, MSCI may take the decision to exclude the relevant properties from any index.
- No single operational computation methodology, such as income capitalization or Discounted Cash Flow (DCF), is prescribed for the conduct of these valuations.
- Valuations of development assets should be based upon the generic market valuation standards outlined above. However, in some circumstances this is not possible and only book values can be provided to MSCI. In these exceptional circumstances, such values may be used for index calculations.

- If non-market values are provided for owner-occupied properties, or other properties that cannot be traded on the open market, those assets will be excluded from MSCI market indexes.

It may be necessary, particularly in the early stages of market measurement and/or index development, to exempt certain highly specialized real estate investment sectors, principally those where regular open market trading is rare or difficult to delineate (e.g., social housing), from some of the above principles. Such sectors or segments are not combined into broader national or international property indexes until a mainstream open market valuation regime is in place.

Supplementary Valuation Standards

In addition to the valuations of direct property interests, valuations will be needed for other (investment) assets and liabilities held within real estate portfolios and funds. Although those valuations are not used in MSCI's Standard property indexes they will be used in analytic products and services as well as in bespoke indexes. The standards for the valuation of those indirect or financial assets are outlined below:

- Valuations for indirect (real estate) holdings (e.g., interests in pooled real estate funds) should be submitted as the mid-market price or net asset value (NAV) on the last working day prior to the valuation date.
- Valuations of debt liabilities should be submitted as Market/Fair Value, with mark-to-market adjustments.
- Valuations of debt investments (loans to third parties) should be submitted either as mark-to-market values or at cost, whichever is used in the vehicle NAV calculation.

APPENDIX: Versioning Table

VERSION	PUBLICATION DATE	KEY CHANGES
V1.0	January 2019	First release of separate document, which was previously partly included in the MSCI Global Methodology Standards for Real Estate Investments and in the MSCI Global Data Standards for Real Estate Investment.
V1.1	June 2019	Name of the document changed from MSCI Requirements for Real Estate Valuations into MSCI Standards for Real Estate Valuations

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