

The COVID-19 pandemic and the MSCI Private Real Estate Indexes

FAQ

MSCI Real Estate

April 2020

Property Valuations

WHAT IS MSCI'S UNDERSTANDING OF THE VALUATION PROCESS DURING THE FIRST QUARTER OF 2020?

MSCI is taking a proactive approach to assess the availability of valuations as the COVID-19 pandemic has disrupted valuers' ability to collect direct evidence and commercial real estate transactions have slowed. We have reached out to a number of market participants (valuers, managers and industry bodies) across several markets to get a better understanding of the situation. We have found participants to be pragmatic, open and collaborative on this matter and our conversations have given us comfort that valuations in general will be available.

There are some indications that in-person site visits and inspections were not possible late in the first quarter, but this is not preventing the asset-specific appraisal of standing assets in client portfolios.

IS MSCI AWARE OF ANY QUALIFYING STATEMENTS FOR PROPERTY VALUATIONS?

A consistent theme in all countries where MSCI has engaged with market participants is that a significant proportion of valuations as at Q1 2020 will carry a valuer's clause of material uncertainty. This is generally due to valuers' lack of ability to perform site visits, a reduction in real estate transactions typically used as market evidence and a lack of other data that would be available and used to inform valuations in normal circumstances. The clause highlights to the users of valuations that they have been prepared under extraordinary circumstances and also allows valuers the freedom to use a wider pool of information beyond only private real estate transaction comparables that are - or could be - very limited at this time.

The use of qualifying statements is not unprecedented in recent history and the rationale is consistent across markets, although the exact wording of the clause may differ per country. Several appraisal institutes have recommended standard wording for their members, but it is up to each valuer to make this assessment. Consequently, MSCI is considering introducing a similarly worded qualification upon publishing its Q1 2020 indexes, in order to ensure transparency as well as drawing index users' attention to this issue.

WHAT EARLIER INSTANCES WERE THERE OF QUALIFYING STATEMENTS FOR VALUATIONS?

This is not the first time that qualifying statements on valuations have been widespread. For example, material valuation uncertainty clauses were also evident in the UK following the results of the UK referendum on EU membership in June 2016 (Brexit). MSCI qualified the respective property indexes published at that time.

WHAT WILL BE THE EXPECTED IMPACT ON THE PRIVATE REAL ESTATE RETURNS FOR Q1 2020?

As a result of the lagged valuation impact on private real estate indexes compared to public markets, it is likely that we will not see a full impact of the pandemic on the Q1 2020 results. The impact on income returns in particular is only expected in Q2. MSCI is working to provide more clarity on these impacts as well as additional insights on how the listed sector has performed in Q1 alongside private real estate performance.

MSCI Operations

HOW IS MSCI OPERATING DURING THE COVID-19 CRISIS?

MSCI has a robust business continuity plan in place and our team is working at full capacity. We have proactively reached out to our clients and are focused on helping ease the pressure and support those facing challenges in getting their data to us. The production of indexes is following normal data provision and index publication schedules. The MSCI Real Estate indexes schedule is available [here](#).

WHAT HAPPENS IF CERTAIN DATA PROVIDERS CAN'T PROVIDE DATA BASED ON THE NORMAL TIMELINES?

MSCI requests data providers and clients to contact us as soon as possible if they have any concerns with their data provision. If MSCI is made aware of a delay in data provision, or if there is an expectation that the composition of the index would decline materially based on current timelines, the situation will be assessed by MSCI's internal governance bodies to determine the best action, which could be delaying the release. This is outlined in the MSCI Real Estate – Index Policies and will be performed by keeping the following goals in mind: representativeness, data quality and timeliness. Any delays or changes to index composition will be published in the usual area on [MSCI's website](#).

MSCI will not hold down any capital values or NAVs, except for those markets where this is already part of the index methodology (e.g., New Zealand and Australia)

property indexes). Any data provision or corrections made after the index release will be treated based on the standard correction [policy](#).

WHAT WILL HAPPEN WITH THE PRODUCTION OF Q2 2020 INDEXES?

MSCI’s engagement with industry participants is also extending to the Q2 2020 valuation cycle. It is clear from those we talk with that the situation requires day-by-day monitoring. Present indications are that valuations will continue to be completed, however it is too early to predict conditions or their potential effect on Q2 2020 indexes. MSCI will continue to engage with the industry to monitor the situation and extend any assistance we can bring to improving transparency or the flow of information.

Data Provision and Index Calculation Rules

WILL FUNDS WITH SUSPENSIONS CONTINUE TO BE INCLUDED IN THE MSCI PROPERTY FUND INDEXES?

Yes. Although funds may suspend subscriptions and redemptions during this period of uncertainty, it is expected to be a temporary situation. As such, Indexes where the inclusion criteria stipulate only open-ended funds will continue to be included in MSCI property fund indexes provided they supply the required data.

WHICH FUND NAVS WILL BE USED IN THE MSCI PROPERTY FUND INDEXES?

Fund NAVs provided by funds should be determined according to their usual process. It is possible that fund NAVs may have been adjusted by the fund management to reflect the changing conditions at the end of the quarter. In such cases the adjusted NAV must be provided as a basis for calculating the MSCI property fund indexes.

In the case of funds that have suspended subscriptions and redemptions, the NAV as at the reporting date should be provided in line with the usual NAV reflecting the underlying gross asset values less all liabilities as per chosen valuation principles.

WHAT HAPPENS IF A FUND DOES NOT DISTRIBUTE INCOME FOR A PERIOD?

If the management of a fund decides not to distribute the income generated from the underlying assets for a period, then a distributed income of zero must be provided to MSCI. A 0% distribution return will be computed for the fund in that period, which would also be reflected in a lower distribution of the respective property fund index. The fund’s total return for the period will be unaffected because retained earnings would be reflected in the NAV.

In those cases where a fund is not distributing income for a particular period, but the fund manager continues to charge fees to the investors, the fees *accrued* in the period must be provided as a *negative distribution*.

HOW SHOULD A REDUCTION IN RENTAL INCOME BE PROVIDED FOR MSCI PROPERTY INDEXES?

Governments and states differ in the speed of response and their approach to supporting tenants or landlords experiencing difficulties in meeting their obligations. Circumstances may even vary by sector or tenant (e.g., essential vs. non-essential) within countries and so the treatment of significant changes to income may differ between property assets if they experience one or more of the following cases:

- If a reduction in rent has been formally agreed with a tenant, or legislation exists that relieves the tenant of its obligation to pay the rent in full, the *reduced level of rental income* must be provided as asset-level *income receivable* in the impacted period.
- If the tenant still has an obligation to pay the rent in full but has either made partial or no rental payments, and the outstanding rental income has not been written off as at the end of the reporting period, *the fully accrued rental income* must be provided as *income receivable* for the respective asset, even if the reduced rental is anticipated by the landlord.
- If an agreement to reduce or waive rent is made retrospectively, the *amount of reduction* must be provided as a negative *other income* against the asset in the period the agreement is made.
- Any *arrears* written off within the reporting period must be provided as asset-level *bad debt costs* to the value written off in the period of write-off regardless of when the outstanding rental income was due or whether or not the amount written off comprises the full arrears for any given period.

Further Information

WHERE CAN I FIND INFORMATION ABOUT DELAYS TO INDEX PUBLICATION?

Any delays or changes to index composition will be published in the usual area on [MSCI's website](#).

WHERE CAN I FIND RESEARCH UPDATES RELATING TO THE CURRENT IMPACT OF COVID-19 ON THE PRIVATE REAL ESTATE MARKETS?

Please visit our website <http://www.msci.com/coronavirus> or follow-us on LinkedIn and Twitter where we are frequently sharing research and insights to help you navigate global markets through these challenging times.

WHERE CAN I FIND MSCI'S OVERALL COVID-19 RESPONSE?

For FAQs and other content relating to MSCI's overall COVID-19 response, please refer to our [website](#)

WHERE SHOULD I DIRECT SPECIFIC QUESTIONS REGARDING MSCI'S COVID-19 RESPONSE?

If you have specific questions about MSCI's BCP / IT Infrastructure / Information Security, please direct these to itrisk-itrfp@msci.com

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ABOUT MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 45 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

To learn more, please visit www.msci.com.

The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

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