

Real estate index announcement

November 2020

Conclusion of MSCI Consultation on calculation methodology change to lease term-based measures for UK and Ireland Property Indexes

November 2020: MSCI announced today that it will implement the proposed changes to lease term-based measures for the UK and Ireland Property Indexes, following its recent consultation with the real estate investment community. These changes aim to improve the relevance and representativeness of these measures while ensuring ease of replicability and global consistency in the calculation methodology.

Summary of key changes:

- The calculation methodology of remaining lease term and average lease length measures at aggregate level will be weighted based on current rent passing compared to the maximum of rent passing and all future step amounts as per former methodology.
- The impacted measures include all variants of remaining lease term and average lease length at any level of aggregation (property, portfolio, segment, sector or any composite levels), and will be calculated as below:

$$\text{Remaining Lease Term (incl. Breaks)}_{subset} = \frac{\sum (\text{Rent Passing} \times \text{Months to Expiry or Break from calculation date})_{tenant}}{\sum \text{Rent Passing}_{tenant}}$$

$$\text{Average Lease Length (incl. Breaks)}_{subset} = \frac{\sum (\text{Rent Passing} \times \text{Months to Expiry or Break from lease start date})_{tenant}}{\sum \text{Rent Passing}_{tenant}}$$

- For rent free leases, the Market Rental Value is substituted for Rent Passing in the above calculation.
- Based on the client feedback received during consultation, MSCI will also amend the calculation criteria for 'reversion from reversionary leases' measure to consider only those future step events that are contracted within 10 years from the calculation date.

Implementation and Timelines

The new methodology will be implemented retrospectively through the entire index history including the frozen history of UK property indexes. The methodology changes will become effective from the Q4 2020 release of the UK and Ireland Quarterly Property Indexes. The lease term-based measures as per new methodology will be available in the risk reports (part of enterprise analytics product suite) for all subscribers during Q4 2020 reporting.

Contact us

realestate@msci.com

+ 44 20 7336 4783

AMERICAS

Canada + 1 416 687 6284

US + 1 212 804 3900

EUROPE, MIDDLE EAST & AFRICA

UK + 44 20 7336 9200

France + 44 20 7336 4783

Germany + 49 691 3385 900

Italy + 44 20 7336 9684

Netherlands + 44 20 7336 9200

Spain + 34 93 467 7403

South Africa + 27 11 656 2115

Sweden + 46 8 400 252 30

ASIA PACIFIC

Australia + 61 2 9033 9300

Hong Kong + 852 2844 9333

Singapore + 65 6826 9339

Japan + 81 3 5211 1455

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