

# MSCI US REIT INDEX METHODOLOGY

Index Construction and Maintenance Methodology for the MSCI US  
REIT Index

**February 2020**

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## INTRODUCTION

The MSCI US REIT Index is a free float-adjusted market capitalization weighted index that is comprised of Equity REIT securities. The MSCI US REIT Index includes securities with exposure to core real estate (e.g. residential and retail properties) as well as securities with exposure to other types of real estate (e.g. casinos, theaters).

The MSCI US REIT Index is based on the MSCI USA Investable Market Index (IMI) (“the parent index”), which is comprised of all the securities included in the MSCI USA Large Cap, MSCI USA Mid Cap and MSCI USA Small Cap Indexes. The MSCI USA IMI is governed by the MSCI Global Investable Market Indexes methodology that is available on MSCI’s web site: <https://www.msci.com/index-methodology>.

At the November 2013 Semi-Annual Index Review, MSCI enhanced the MSCI US REIT Index methodology by transitioning the parent index used to derive the MSCI US REIT Index from the MSCI US Investable Market 2500 Index to the MSCI USA IMI. This change was implemented in order to align the parent index universe of the MSCI US REIT Index with the MSCI Global Investable Market Indexes.

This document contains the new enhanced guidelines used to maintain the MSCI US REIT Index. More details on the transition to the enhanced MSCI US REIT Index methodology are included in the Appendix.

## 1 DEFINING REITS AND THE MSCI US REIT INDEX ELIGIBLE REITS

A Real Estate Investment Trust, or REIT, is a company that in most cases owns and operates income producing real estate assets. Some REITs provide loans to the owners and operators of real estate. To qualify as a REIT under the Internal Revenue Code, a REIT is required to distribute at least 90% of its taxable income to shareholders annually and receive at least 75% of that income from rents, mortgages and sales of property.

MSCI classifies REIT securities into one of the Real Estate Investment Trust (REITs) Sub-Industries within the Global Industry Classification Standard (GICS®) structure. The GICS structure includes eight Equity REITs Sub-Industries and one Sub-Industry for Mortgage REITs. The Equity REITs Sub-Industries are part of the Equity Real Estate Investment Trusts (REITs) Industry under the Real Estate Sector<sup>1</sup>. The Mortgage REITs Sub-Industry is part of the Financials Sector. The eight Equity REITs Sub-Industries aim to represent REITs with distinct property type profiles.

REITs eligible for inclusion in the MSCI US REIT Index are REITs that are included in the MSCI USA IMI and that exhibit the following characteristics:

- Equity REIT structure (i.e., classified under the Equity Real Estate Investment Trusts (REITs) Industry)
- Real estate exposure (i.e., only selected Specialized REITs are eligible)
- REIT tax status (i.e. companies are not eligible before the beginning of their first fiscal year in which they are expected to be treated as REIT for tax purpose)

### REITs Sub-Industries: Eligibility for the MSCI US REIT Index

REITs Sub-Industry	Eligibility for the MSCI US REIT Index
Diversified REITs	Yes
Health Care REITs	Yes
Hotel & Resort REITs	Yes
Industrial REITs	Yes
Office REITs	Yes
Residential REITs	Yes

<sup>1</sup> Effective September 1, 2016, Real Estate is being moved out from under the Financials Sector and is being promoted to its own sector. The Real Estate Investment Trusts (REITs) Industry is being renamed to Equity Real Estate Investment Trusts (REITs) and excludes Mortgage REITs.

Retail REITs	Yes
<b>Specialized REITs</b>	<b>Selected Specialized REITs only</b>
<b>Mortgage REITs</b>	<b>No</b>

REITs classified in the Specialized REITs Sub-Industry are eligible for inclusion in the MSCI US REIT Index only if they own and/or operate the following types of properties:

- Storage and self-storage facilities
- Data centers
- Correctional facilities
- Theaters
- Casinos and gaming facilities
- Restaurants

## 2 MAINTENANCE OF THE MSCI US REIT INDEX

The maintenance of the MSCI US REIT Index includes:

- Semi-Annual Index Reviews (SAIRs) in May and November,
- Quarterly Index Reviews (QIRs) in February and August, and
- Ongoing event-related changes which are generally implemented in the indexes as they occur

### 2.1 SEMI-ANNUAL INDEX REVIEWS AND QUARTERLY INDEX REVIEWS

During Semi-Annual Index Reviews and Quarterly Index Reviews, the parent index is reviewed under the guidelines of the MSCI Global Investable Market Indexes methodology. Changes in the parent index during Index Reviews may impact the MSCI US REIT Index as follows:

- Existing constituents of the MSCI US REIT Index that are deleted from the parent index are deleted from the MSCI US REIT Index
- Eligible equity REIT securities not currently constituents of the MSCI US REIT Index that are added to the parent index are added to the MSCI US REIT Index
- Changes in the Foreign Inclusion Factors (FIF) and Number of Shares (NOS) for securities of the parent index are also applied to the securities included in the MSCI US REIT Index
- When a change in Global Industry Classification Standard (GICS) for an existing constituent of the parent index to one of the eligible REIT Sub-Industries defined in Section 1 is announced, then provided that the date of such announcement is before the implementation date of the next Index Review, such constituent may be considered for inclusion in the MSCI US REIT Index at such Index Review

In addition, the list of eligible property types for REITs classified in the Specialized REITs Sub-Industry is reviewed during each Semi-Annual Index Review and Quarterly Index Review. Changes to the list are communicated as part of the Index Review announcements and become effective at the subsequent Index Review.

For more information on Index Reviews for the MSCI Global Investable Market Indexes, please refer to Sections 3.1 and 3.2 of the MSCI Global Investable Market Indexes methodology book.

## 2.2 CUTOFF DATE FOR MARKET CAPITALIZATION AND PRICES USED FOR THE REBALANCING

MSCI uses pro forma data as of any one of the last 10 business days of April for the May SAIR and of October for the November SAIR, respectively.

## 2.3 ONGOING EVENT-RELATED CHANGES

The parent index is updated to reflect ongoing event-related changes in accordance with the MSCI Global Investable Market Indexes methodology. Ongoing event-related changes in the parent index are reflected in the MSCI US REIT Index at the time of the implementation of the event in the parent index:

- Existing constituents of the MSCI US REIT Index that are deleted from the parent index due to corporate events are deleted from the MSCI US REIT Index
- Eligible equity REIT securities not currently constituents of the MSCI US REIT Index that are added to the parent index due to corporate events are added to the MSCI US REIT Index
- Changes in the Foreign Inclusion Factors (FIF) and Number of Shares (NOS) for securities of the parent index due to corporate events are also applied to the securities included in the MSCI US REIT Index

In general, the MSCI US REIT Index follows the event maintenance of the MSCI Global Investable Market Indexes with the exception of the treatment described below. Details regarding the treatment of corporate events not covered below can be found in the MSCI Corporate Events Methodology Book, available at <http://www.msci.com/indexmethodology>

## 2.4 ANNOUNCEMENT POLICY

In line with the MSCI Global Investable Market Indexes methodology, the changes to the MSCI US REIT Index are typically announced at least ten business days prior to these changes becoming effective in the indexes as “expected” announcements, or as “undetermined” announcements, when the effective dates are not known yet or when aspects of the event are uncertain. MSCI sends “confirmed” announcements at least two business days prior to events becoming effective in the indexes provided that all necessary public information concerning the event is available. In case a “confirmed” announcement needs to be amended, MSCI sends a “correction” announcement with a descriptive text announcement to provide details about the changes made.

If warranted, MSCI may make descriptive text announcements for events that are complex in nature and for which additional clarification could be beneficial for any Standard, Small Cap and Micro Cap Indexes.

For more information on the announcement policy for the MSCI Global Investable Market Indexes, please refer to Section 3.4 of the MSCI Global Investable Market Indexes methodology book.



## **APPENDIX I: PAST METHODOLOGY CHANGES FOR THE MSCI US REIT INDEX**

### **CHANGES APPLIED AT THE NOVEMBER 2013 SEMI-ANNUAL INDEX REVIEW**

Effective at the time of the November 2013 Semi-Annual Index Review, MSCI enhanced the MSCI US REIT Index methodology by transitioning the parent index used to derive the MSCI US REIT Index from the MSCI US Investable Market 2500 Index to the MSCI USA IMI. This change was implemented in order to align the parent index universe of the MSCI US REIT Index with the MSCI Global Equity Indexes.

To reduce index turnover following the transition to the enhanced MSCI US REIT Index methodology, current constituents of the MSCI US REIT Index will remain eligible for inclusion in the MSCI US REIT Index as long as they remain in the MSCI USA Micro Cap Index.

## **APPENDIX II: POLICY REGARDING TRADING SUSPENSIONS DURING INDEX REVIEWS**

### **POLICY REGARDING TRADING SUSPENSIONS FOR INDIVIDUAL SECURITIES DURING INDEX REVIEWS**

MSCI will postpone the implementation of index review changes for the MSCI US REIT Index constituents when the affected securities are suspended on the day prior to the effective implementation date of the Index Review. The postponed index review changes will be implemented two days after the securities resume trading.

The following Index Review changes will be postponed:

- Additions to and deletions from the MSCI US REIT Index, except if the deletion is due to a change in the Global Industry Classification Standard (GICS) of the security
- Changes in Foreign Inclusion Factor (FIF) or Number of Shares (NOS) for constituents of the MSCI US REIT Index

All index review changes that are postponed due to suspension will be cancelled two months after the effective date of the Index Review if the securities are still suspended and will be implemented at the Index Review following the securities' resumption of trading if still warranted.

## METHODOLOGY BOOK TRACKED CHANGES

### The following sections have been modified since February 2014:

Section 1: Defining REITs and the MSCI US REIT Index Eligible REITs

- Updates in this section

### The following sections have been modified since June 2015:

Section 1: Defining REITs and the MSCI US REIT Index Eligible REITs

- Update to the list of eligible property types

### The following sections have been modified since November 2015:

Section 1: Defining REITs and the MSCI US REIT Index Eligible REITs

- Added “Restaurants” to the list of eligible property types

Section 2.1: Semi-Annual Index Reviews and Quarterly Index Reviews

- Added a paragraph on the review process for the list of eligible property types

### The following sections have been modified since December 2015:

Section 1: Defining REITs and the MSCI US REIT Index Eligible REITs

- Added “REIT tax status” as a condition for eligibility

### The following sections have been modified since May 2016:

Appendix II: Policy Regarding Trading Suspensions and Market Closures during Index Reviews

- New Appendix

**The following sections have been modified since August 2016:**

Section 1: Defining REITs and the MSCI US REIT Index Eligible REITs

- Updated to reflect revised GICS structure effective September 1, 2016

Appendix II: Global Industry Classification Standard (GICS)

- Updated to reflect revised GICS structure effective September 1, 2016

**The following sections have been modified since February 2017:**

Appendix III: Policy Regarding Trading Suspensions during Index Reviews

- Updates in this section

**The following sections have been modified since September 2017:**

Section 2: Maintenance of the MSCI US REIT Index

- New sub-sections added

Section 2.3: Ongoing Event-Related Changes

- Added clarification

**The following sections have been modified since November 2018:**

Appendix II: Global Industry Classification Standard (GICS)

- Updates in this section

**The following sections have been modified since January 2020:**

Appendix II: Global Industry Classification Standard

- It has been removed

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