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# Results of the 2014 FTSE NAREIT U.S. Real Estate Index Series Consultation

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In 2014 FTSE and NAREIT invited market participants and interested parties to participate in a consultation regarding proposed changes and discussion questions with respect to the FTSE NAREIT US Real Estate Index Series.

As a result of discussions with the FTSE NAREIT U.S. Real Estate Index Advisory Committee, the public Consultation, and a formal evaluation by NAREIT and FTSE Russell of all comments and suggestions submitted during the review, on 8 June 2015 FTSE Russell and the National Association of Real Estate Investment Trusts® announced a number of changes to the FTSE NAREIT U.S. Real Estate Index classification structure and Ground Rules.

This document provides further information on these changes.



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## 1. Results of the 2014 FTSE NAREIT U.S. Real Estate Index Series Consultation

FTSE Russell and the National Association of Real Estate Investment Trusts® announced on 8 June 2015 changes to the FTSE NAREIT U.S. Real Estate Index classification structure and Ground Rules. The changes are intended to ensure that the Index continues to accurately represent the stock exchange-listed REIT industry in the United States and, thereby, provide all market participants relevant and timely benchmarks for analysis, capital allocation and investment management.

The changes announced are the result of discussions with the FTSE NAREIT U.S. Real Estate Index Advisory Committee, a public Consultation with interested parties, including members of the investment community, and a formal evaluation by NAREIT and FTSE Russell of all comments and suggestions submitted during the review.

Changes to the Index classification structure and the Ground Rules will take effect on 21 December 2015.

## 2. Classification Structure Changes

- The FTSE NAREIT Equity Diversified Index will be maintained. The Index will be redefined to include Equity REITs that mostly own, manage and lease substantial proportions of their assets across two or more property sectors, of which none meet the 75 percent gross invested book assets threshold of any single property sector.
- The FTSE NAREIT Equity Specialty Index will be instituted as part of the FTSE NAREIT Composite Index, the FTSE NAREIT All Equity REIT Index and the FTSE NAREIT Equity REIT Index. The FTSE NAREIT Equity Specialty Index will include those companies that mostly own, manage and lease assets primarily in a single property sector currently not part of the classification structure and that do not meet the 75 percent gross invested book assets threshold of any other property sector.
- The FTSE NAREIT Equity Industrial/Office Sector Index will be discontinued.

- The FTSE NAREIT Equity Industrial Subsector Index will be promoted to a stand-alone Sector Index.
- The FTSE NAREIT Equity Office Subsector Index will be promoted to a stand-alone Sector Index.
- The FTSE NAREIT Equity Mixed-Industrial/Office Subsector Index will be discontinued. Constituents of the FTSE NAREIT Mixed-Industrial/Office Subsector Index will be reclassified to the FTSE NAREIT Office Sector Index or to the FTSE NAREIT Industrial Sector Index based on the plurality of its assets in either the office or industrial property sectors.
- The FTSE NAREIT Equity Single Family Index will be instituted as a subsector within the FTSE NAREIT Equity Residential Index.

### 3. Ground Rule Change

The following ground rule change will take effect on December 21, 2015.

#### 5.9 FTSE NAREIT New Property Sector Entry Rule

5.9.1 For a new property sector to be created and included in the FTSE NAREIT US Real Estate Index Series, the companies included in such property sector must have a minimum combined sector level weight greater than 3% of the FTSE NAREIT All Equity REITs Index by investable market capitalization.

##### **A Addition of a new index constituent**

A new property sector will be created and populated by the new constituent if the investable market capitalization of the new constituent is greater than 3% of the investable market capitalization of the FTSE NAREIT All Equity REITs Index following inclusion of the new constituent.

##### **Example 1**

- New addition Company A has an investable market capitalization of \$20bn.
- Total investable market cap of FTSE NAREIT All Equity REITs Index before inclusion is \$800bn.

- Percentage weight of Company A following inclusion in the FTSE NAREIT All Equity REITs Index =  $\$20 / (\$800 + \$20) = 2.44\%$ .

In this example, a new property sector would not be created and Company A would be added to the Equity Specialty Property Sector.

#### **Example 2**

- New addition Company A has an investable market capitalization of \$20bn.
- Total investable market cap of FTSE NAREIT All Equity REITs Index before inclusion is \$800bn.
- Other existing constituents for a new property sector have a combined investable market capitalization of \$10bn.
- Percentage weight of Company A combined with that of other existing constituents =  $(\$20 + \$10) / (\$800 + \$20) = \$30 / \$820 = 3.66\%$ .

In this example, a new property sector would be created in conjunction with the annual December review and rebalance.

#### **B Combined investable market capitalization of existing constituents**

When the combined investable market capitalization of one or more existing constituents with a common property sector focus grows to exceed 3% of the investable market capitalization of the FTSE NAREIT All Equity REITs index for two consecutive quarters, a new sector will be created and included in the FTSE NAREIT Index Series for those constituents in conjunction with the annual December review and rebalance.

#### **C There will not be a minimum investable market capitalization requirement for existing property sectors.**

Existing property sectors will remain in the FTSE NAREIT Classification structure as long as they contain eligible index constituents. Upon deletion of the last eligible index constituent, the property sector will cease to be calculated and will only recommence if it passes the index eligibility criteria for a new property sector as stated in Rule 5.9.

## 4. FTSE NAREIT Classification Structure

FTSE NAREIT Classification Structure								
Headline Indices		Investment Sector Indexes		Property Sector		Property Sub Sector		
		Code	Index Name	Code	Index Name	Code	Index Name	
FTSE NAREIT ALL REITS (FNAR)	FTSE NAREIT Composite (FNCO)	FTSE NAREIT Real Estate 50 (FNRS)	N1000	All Equity REITs (FNER)	N710	Equity Diversified (FN10)	N711	Equity Diversified
					N720	Equity Health Care (FN11)	N721	Equity Health Care
					N730	Equity Self Storage (FN12)	N731	Equity Self Storage
					N740	Equity Industrial/Office (FN13)	N741	Equity Industrial (FN14)
							N742	Equity Office (FN15)
							N743	Equity Mixed (FN16)
						<b>Equity Industrial</b>		<b>Equity Industrial</b>
						<b>Equity Office</b>		<b>Equity Office</b>
					N750	Equity Residential (FN17)	N751	Equity Apartments (FN18)
							N752	Equity Manufactured Homes (FN19)
								<b>Equity Single Family Homes</b>
					N760	Equity Retail (FN20)	N761	Equity Shopping Centers (FN21)
							N762	Equity Regional Malls (FN22)
							N763	Equity Free Standing (FN23)
			N770	Equity Lodging/Resorts (FN24)	N771	Equity Lodging/Resorts		
			<b>N780</b>	<b>Equity Specialty (FN25)</b>	<b>N781</b>	<b>Equity Specialty</b>		
			N790	Timber REITs (FN26)	N791	Timber REITs		
			N793	Infrastructure REITs (FN28)	N794	Infrastructure REITs		
			N900	Mortgage REITs (FNMR)	N910	Mortgage Home Financing (FN42)		
					N920	Mortgage Commercial Financing (FN43)		
			N911	Mortgage Home Financing	N921	Mortgage Commercial Financing		
			N700	Equity REITs (FNRE)	N710	Equity Diversified (FN10)	N711	Equity Diversified
					N720	Equity Health Care (FN11)	N721	Equity Health Care
					N730	Equity Self Storage (FN12)	N731	Equity Self Storage
					N740	Equity Industrial/Office (FN13)	N741	Equity Industrial (FN14)
							N742	Equity Office (FN15)
							N743	Equity Mixed (FN16)
						<b>Equity Industrial</b>		<b>Equity Industrial</b>
	<b>Equity Office</b>				<b>Equity Office</b>			
N750	Equity Residential (FN17)	N751			Equity Apartments (FN18)			
		N752			Equity Manufactured Homes (FN19)			
					<b>Equity Single Family Homes</b>			
N760	Equity Retail (FN20)	N761			Equity Shopping Centers (FN21)			
		N762			Equity Regional Malls (FN22)			
		N763			Equity Free Standing (FN23)			
N770	Equity Lodging/Resorts (FN24)	N771	Equity Lodging/Resorts					
<b>N780</b>	<b>Equity Specialty (FN25)</b>	<b>N781</b>	<b>Equity Specialty</b>					

### Key

	new sectors/subsectors
	discontinued/relocated sectors/subsectors



If you have any questions and would like to speak to a client services individual directly, please do not hesitate to contact us on the numbers below, or via email at [info@ftse.com](mailto:info@ftse.com).

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