

FTSE Nareit US Real Estate Capped Index Series

v3.6



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Section 1

Introduction

1. Introduction

1.1 FTSE Nareit US Real Estate Capped Index Series

1.1.1 The FTSE Nareit® US Real Estate Capped Index Series is designed to provide the most comprehensive assessment of overall industry performance and includes all tax-qualified real estate investment trusts (REITs) that are listed on the New York Stock Exchange or NASDAQ (see Appendix E).

To qualify as a REIT, a company must comply with certain provisions within the US Internal Revenue Code. As required by the tax code, a REIT must:

- be an entity that is taxable as a corporation;
- be managed by a board of directors or trustees;
- have shares that are fully transferable;
- have a minimum of 100 shareholders;
- have no more than 50% of its shares held by five or fewer individuals during the last half of the taxable year;
- invest at least 75% of its total assets in qualifying real estate assets, which include interests in real property, interests in mortgages on real property or shares in other REITs;
- derive at least 75% of its gross income from real estate related services, such as rents from real property or interest on mortgages financing real property;
- have no more than 25% of its assets consist of stock in taxable REIT subsidiaries;
- pay annually at least 90% its taxable income in the form of shareholder dividends; and
- for inclusion in the index series, a company must have US nationality as assigned by FTSE.

The FTSE Nationality Statement can be accessed using the following link:

[Determining_Nationality.pdf](#)

1.1.2 Limited liability partnerships (LLP) and limited liability companies (LLC) will not be eligible for inclusion.

1.1.3 Stapled units consisting of a REIT common stock combined with a non-REIT common stock will not be eligible for inclusion.

1.1.4 The FTSE Nareit US Real Estate Capped Index Series does not take account of ESG factors in its index design.

1.1.5 FTSE considers that the FTSE Nareit US Real Estate Index Series meets the IOSCO Principles for Financial Benchmarks as published in July 2013.

- 1.1.6 FTSE hereby notifies users of the index series that it is possible that circumstances, including external events beyond the control of FTSE, may necessitate changes to, or the cessation, of the index series and therefore any financial contracts or other financial instruments that reference the index series or investment funds that use the index series to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index series.

1.2 FTSE Nareit US Real Estate Capped Index Series Ground Rules

- 1.2.1 This document sets out the Ground Rules for the methodology of the FTSE Nareit US Real Estate Index Capped Index Series. Copies of these Ground Rules are available from Nareit and FTSE (see Appendix D). The Ground Rules for the FTSE Nareit US Real Estate Capped Index Series Ground Rules should be used in conjunction with the FTSE Nareit US Real Estate Index Series Ground Rules.

1.3 Index construction methodology

- 1.3.1 The FTSE Nareit US Real Estate Capped Index Series consists of four indices:

- FTSE Nareit Industrial/Office Capped Index;
- FTSE Nareit All Residential Capped Index;
- FTSE Nareit Retail Capped Index; and
- FTSE Nareit All Mortgage Capped Index.

The FTSE Nareit Capped Universe consists of all publicly traded REITs in accordance with rule 1.1.1.

The FTSE All Mortgage Capped Index has a reserve list (see rule 5.9 and Appendix B).

- 1.3.2 The FTSE Nareit US Real Estate Capped Index Series is calculated on an end-of-day basis in US Dollars, Euro, UK Sterling and Japanese Yen.

- 1.4 The following variants are, or if requested may be, calculated for certain indices within the index series:

- capital and total return indices;
- net total return indices based on specified withholding tax rates;
- indices calculated in currencies other than the base currency (USD);
- currency hedged indices;
- capped indices; and
- sector indices.

Additional customised variants can be calculated on request including indices with industry, country and sector exclusions. Selected indices are calculated and disseminated on a real-time basis.

- 1.5 All indices are calculated and disseminated on a real-time basis in US Dollars.

- 1.6 Both price and total return indices are calculated. Dividends are included in the total return indices based on their ex-dividend dates.

- 1.7 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index's rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE, Nareit or any members of the FTSE Nareit Index Series advisory committee (or any person concerned with the preparation or publication of these Ground Rules) for any losses, damages, claims and expenses suffered by any person as a result of:
- any reliance on these Ground Rules;
 - any inaccuracies in these Ground Rules;
 - any non-application or misapplication of the policies or procedures described in these Ground Rules; and/or
 - any inaccuracies in the compilation of the index or any constituent data.

1.8 FTSE Russell

- FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and FTSE Fixed Income Europe Limited), FTSE Fixed Income LLC, FTSE (Beijing) Consulting Limited, Refinitiv Benchmark Services (UK) Limited, Refinitiv Limited and Beyond Ratings.

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index series¹.

2.1.2 FTSE is responsible for the daily calculation, production and operation of the index series, and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the index series and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and periodic reviews; and
- disseminate the indices.

2.2 Status of these Ground Rules

2.2.1 These Ground Rules set out the methodology and provide information about the publication of the FTSE Nareit US Real Estate Capped Index Series.

2.2.2 Please refer to the FTSE Nareit US Real Estate Index Series and the Ground Rules for the FTSE Global Equity Index Series for details regarding the management responsibilities for these indices.

¹ The term administrator is used in this document in the same sense as it is defined in [Regulation \(EU\) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds](#) (the European Benchmark Regulation).

Section 3

FTSE Russell Index policies

3. FTSE Russell Index policies

These Ground Rules should be read in conjunction with the following policy documents, which can be accessed using the links below.

3.1 Corporate Actions and Events Guide

- 3.1.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

3.2 Statement of Principles for FTSE Russell Equity Indices (the Statement of Principles)

Indices need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles, which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy advisory board for discussion before approval by the FTSE Russell Index Governance Board.

The Statement of Principles can be accessed using the following link:

[Statement of Principles.pdf](#)

3.3 Queries, complaints and appeals

- 3.3.1 A constituent or prospective constituent company (or professional adviser acting on behalf of the company), a national organisation or a group of no fewer than 10 users of the indices from different organisations acting in their professional capacity may appeal against decisions taken by FTSE Russell.

FTSE Russell's complaints procedure can be accessed using the following link:

[FTSE Russell Benchmark Determination Complaints Handling Policy.pdf](#)

FTSE Russell's appeal process can be accessed using the following link:

[Appeals Against Decisions.pdf](#)

3.4 Index policy for trading halts and market closures

- 3.4.1 Guidance for the treatment of index changes in the event of trading halts or market closures can be found using the following link:

[FTSE Russell Index Policy for Trading Halts and Market Closures.pdf](#)

3.5 Index policy in the event clients are unable to trade a market

- 3.5.1 Details of FTSE Russell's treatment can be accessed using the following link:

[FTSE Russell Index Policy in the Event Clients are Unable to Trade a Market.pdf](#)

3.6 Recalculation policy and guidelines

- 3.6.1 Where an inaccuracy is identified, FTSE Russell will follow the steps set out in the FTSE Russell Index recalculation guidelines when determining whether an index or index series should be recalculated and/or associated data products reissued. Users of the FTSE Nareit US Real Estate Capped Index Series will be notified through appropriate media.

For further information, refer to the FTSE Russell Recalculation Policy and Guidelines document, which is available from the FTSE Russell website using the link below or by e-mailing info@ftserussell.com.

[Recalculation Policy and Guidelines Equity Indices.pdf](#)

3.7 FTSE Russell policy for benchmark methodology changes

- 3.7.1 Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[FTSE Russell Policy for Benchmark Methodology Changes.pdf](#)

3.8 FTSE Russell governance framework

- 3.8.1 To oversee its indices, FTSE Russell employs a governance framework that encompasses product, service and technology governance. The framework incorporates the London Stock Exchange Group's three lines of defence risk management framework and is designed to meet the requirements of the IOSCO Principles for Financial Benchmarks² and the European benchmark regulation³. The FTSE Russell governance framework can be accessed using the following link:

[FTSE Russell Governance Framework.pdf](#)

3.9 Real Time Status Definitions

- 3.9.1 For indices which are calculated in real time, please refer to the following guide for details of real time status definitions:

[Real Time Status Definitions.pdf](#)

² IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013.

³ Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

Section 4

Algorithm and calculation methodology

4. Algorithm and calculation methodology

4.1 Shares in issue

- 4.1.1 If a corporate action is applied to an index constituent that involves a change in the number of shares in issue, the change in shares will be applied simultaneously with the corporate action.
- 4.1.2 If accumulated changes in the number of shares in issue add up to 10% or more or when an accumulated share change represents USD two billion or more of a company's total equity market capitalisation, changes in shares are implemented between quarters. A minimum of four days' notice will be given to users of the index.
- 4.1.3 All adjustments are made before the start of the index calculation on the day concerned unless market conditions prevent this.

4.2 Algorithm

- 4.2.1 The FTSE Nareit US Real Estate Capped Index Series is calculated using the following formula:

$$\sum_{i=1}^N \frac{(p_i \times s_i \times f_i \times c_i)}{d}$$

Where:

- $i=1,2,\dots,N$;
- N is the number of securities in the index;
- p_i is the latest trade price of the component security (or the price at the close of the index on the previous day);
- s_i is the number of shares in issue used by FTSE for the security, as defined in these Ground Rules;
- f_i is the investability weighting factor to be applied to a security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. This factor is published by FTSE for each security in the underlying index;
- c_i is the capping factor to be applied to a security to correctly weight that security in the index. This factor maps the investable market capitalisation of each stock to a notional market capitalisation for inclusion in the index; and
- d is the divisor, a figure that represents the total issued share capital of the index at the base date. The divisor can be adjusted to allow changes in the issued share capital of individual securities to be made without distorting the index.

- 4.2.2 Adjustments to the divisor are applied whenever capital changes take place so that the performance of the FTSE Nareit US Real Estate Capped Index Series reflects the experience of investors. The Guide to

Calculation Methods – available from FTSE Russell – contains descriptions of the statistical procedures and algorithms used in the compilation of the index series.

Section 5

Qualification criteria and periodic review of constituents

5. Qualification criteria and periodic review of constituents

5.1 Review date

- 5.1.1 The FTSE Nareit US Real Estate Index Series is reviewed on an annual basis in December for all companies that meet the criteria for eligible securities set out in these Ground Rules, based on data as at the close of business on the Monday four weeks prior to the effective date. Any constituent changes will be implemented at the close of business on the third Friday of December.
- 5.1.2 The FTSE Nareit US Real Estate Capped Index Series is also reviewed on a quarterly basis in March, June and September for newly listed IPOs or REIT conversions that do not qualify for fast entry, but which meet the criteria for eligible securities set out in these Ground Rules. The review is based on data at the close of business of the Monday four weeks prior to the review effective date.
- 5.1.3 Any constituent changes resulting from the periodic review will be implemented at the close of business on the third Friday (i.e. effective Monday) of March, June, September and December. Subsequent adjustments in stock weightings (including free float) will become effective at the same time.

5.2 Responsibilities and reporting

- 5.2.1 FTSE will be responsible for conducting the annual review of constituents for the FTSE Nareit US Real Estate Capped Index Series and will recommend constituents for addition or deletion as part of the annual review. For each index, all eligible securities will be ranked by full market capitalisation, before the application of any free float adjustments, as at the close of business on the Monday four weeks prior to the review effective date.

5.3 Review process

- 5.3.1 The rules for inserting and deleting securities at the quarterly review are designed to provide stability in the selection of constituents of the FTSE Nareit US Real Estate Capped Index Series while ensuring that the indices continue to be representative of the market by including or excluding those securities that have risen or fallen significantly in value.
- 5.3.2 All companies that satisfy rule 1.1.1 are selected to form the new constituents of the FTSE Nareit US Real Estate Capped Universe. All FTSE Global Equity Index Series US constituents that are classified as savings associations or mortgage finance will be added to the reserve list of the FTSE Nareit All Mortgage Index only.
- 5.3.3 The new constituents of the FTSE Nareit US Real Estate Capped Universe will then be subject to the five screens detailed below to identify the eligible constituents for the FTSE Nareit US Real Estate Capped Index Series.
- 5.3.4 All the mortgage REITs whose full market capitalisation is equal or greater than USD 100M will be included in the index at the annual review in December. Any mortgage REIT that falls below USD 75M by full market capitalisation when evaluated at the quarterly review will be removed from the index.

5.4 Screen one – size

5.4.1 Only companies with a full market capitalisation greater than US\$150 million by full market capitalisation (on the date at which the data for the review are taken) will be included in the index. Existing constituents will be measured against the USD 150 million threshold for eligibility. If an existing constituent falls below the USD 150 million threshold on review, that constituent will be retained for one additional quarterly review. On the subsequent review, that constituent will be viewed as failing eligibility and will be removed from the eligible universe with the implementation of the review. Deleted constituents would be eligible for re-inclusion at the next review if it were to meet the USD 150 million entry threshold.

5.4.2 Screen two – liquidity

Each security will be tested for liquidity on an annual basis in December by calculation of its monthly median of daily trading volume.

Liquidity will be calculated from the first business day in December of the previous year to the review data cut-off date in November. When calculating the median of daily trading volume of any security for a particular month, a minimum of five trading days in that month must exist, otherwise the month will be excluded from the test.

For each month, the daily trading volume for each security is calculated as a percentage of the shares in issue for that day adjusted by the free float at the review cut-off date. These daily values are then ranked in descending order and the median is taken by selecting the value for the middle ranking day if there is an odd number of days and the mean of the middle two if there is an even number of days.

Daily totals with zero trades are included in the ranking, therefore a security that fails to trade for more than half of the days in a month will have a zero median trading volume for that month.

Any period of suspension will not be included in the test.

The liquidity test will be applied on a pro-rata basis where the testing period is less than 12 months.

- A. A non-constituent that does not turnover at least 0.05% of its shares in issue (after the application of any free float weightings) based on its median daily trading volume per month for at least 10 of the 12 months prior to a full market review will not be eligible for inclusion in the index series.
- B. An existing constituent that does not turnover at least 0.04% of its shares in issue (after the application of any free float weightings) based on its median daily trading volume per month for at least eight of the twelve months prior to a full market review will be removed.
- C. New issues that do not qualify as entrants as defined in rule 5.2.1 will become eligible for inclusion at the next quarterly review providing they trade a minimum of 20 days. They must turnover at least 0.05% of their shares in issue (after the application of any free float weightings*) based on their median daily trading volume each month on a pro-rata basis since listing.

*When testing liquidity, the free float weight as at the last date in the testing period will be used for the calculation for the whole of that period.
- D. In assessing liquidity, data will be obtained from the exchanges where the constituent is listed.
- E. In exceptional market conditions, where trading volumes can be very low, FTSE may reduce the minimum percentage figure stated above to avoid a large amount of turnover in the FTSE Nareit US Real Estate Capped Index Series.
- F. In respect to the FTSE Nareit All Mortgage Capped Index, only stocks which have been screened for liquidity as part of the FTSE Global Equity Index Series review will be eligible.

5.5 Screen three – invested assets

- 5.5.1 Only tax-qualified REITs with at least 75% of their total assets invested in qualifying real estate assets, which include interests in real property (at non-depreciated cost), interests in mortgages on real property or shares in other REITs will be included in the index. New issues, including initial public offerings (IPOs), with qualifying real estate assets less than 75% of their total assets but equal to at least 125% of their net IPO proceeds also will be included in the index. The invested assets test will be conducted on an annual basis at the December annual review and if total invested assets of any constituent of the index fall below 50% of its total assets, the constituent will be deleted from the index.

5.6 Screen four – free float

- 5.6.1 A security that has a free float of less or equal to 15% will be ineligible for the FTSE Nareit US Real Estate Capped Index Series.

5.7 Screen five – UBTI screen

- 5.7.1 Companies that produce unrelated business taxable income (UBTI) are restricted from ownership for tax-exempt investors. In recognition of this, FTSE Russell screens all REITs, removing any security from eligibility that generates or has historically generated UBTI and has not taken steps to block UBTI to equity holders. The research process is conducted on an annual basis in advance of the June quarterly review. Additional screening will not be assessed or changed outside of the reconstitution period. Information used to confirm UBTI impact includes the following publicly available sources: 10-K, SEC form S-3, K-1, the company annual report, dividend notices or the company website.
- 5.7.2 For UBTI to be passed to a security holder, the UBTI must be produced by the company directly. UBTI incurred by a subsidiary will not be realised by the holder of the parent entity and would not require removal of the parent company from eligibility.
- 5.7.3 If a company restructures to block UBTI, they will remain eligible for index inclusion. Acceptable forms of restructure are as follows:
1. formal creation of a shell entity or offshore vehicle ensuring that any dividend payment is void of UBTI; and
 2. if within a public filing (SEC filing, dividend disclosure, press release) the company declares that any UBTI producing assets have been sold AND no future intent to purchase UBTI producing assets exists. This declaration of intent must clearly state that the company's past investment strategy has changed and the intent is to remove the exposure of UBTI to the end holder.
- 5.7.4 UBTI screening will be conducted in line with the June review each year and applied to the FTSE Nareit tradeable indices such as the FTSE Nareit Composite, FTSE Nareit 50, FTSE Nareit Equity REITs, FTSE Nareit All Equity REITs and FTSE Nareit Mortgage REITs. The UBTI screen will not apply to the FTSE Nareit All REITs Index. The research cut-off date for the UBTI screen will fall in May each year and be in line with the Russell US Equity Indices UBTI cut-off date.

5.8 Adjustments applied to eligible securities

Eligible companies may be subject to adjustment for free float and multiple lines; see rules 5.8.1 and 5.8.2.

5.8.1 Free float

The FTSE Nareit US Real Estate Capped Index Series are adjusted for free float and foreign ownership.

Further details on free float restrictions can be accessed using the following link:

[Free Float Restrictions.pdf](#)

A. Initial weighting

Companies with a free float of 5% or below are excluded from the index.

B. Foreign ownership restrictions

FTSE's index methodology takes account of the restrictions placed on the equity holdings of foreigners in a company where these have been imposed by a government, regulatory authority or the company's constitution.

Where the presence of a foreign ownership restriction creates a limit on foreign ownership (the foreign ownership limit or FOL) that is more restrictive than the calculated free float for a company, the precise Foreign Ownership Limit is used in place of the free float for the purposes of calculating the company's investability weight.

If the foreign ownership restriction is less restrictive or equal to the free float restriction, the free float restriction is applied, subject to rule A above.

5.8.2 Multiple lines

Where there are multiple lines of equity capital in a company, all are included and priced separately, provided that:

- the line passes all screens (see rules 5.4, 5.5, 5.6 and 5.7);
- the secondary line's full market value (before the application of any investability weightings) is greater than 25% of the full market capital of the company's main line. Should the market value of a secondary line that is already a constituent of the index series fall below 20% at the next review, the secondary line is deleted; and
- all partly paid classes of equity are priced on a fully paid basis if the calls are payable at known future dates. Those recognised as being permanently partly paid are priced on a partly paid basis.

5.9 Minimum voting rights

5.9.1 Companies assigned a developed market nationality are required to have greater than 5% of the company's voting rights (aggregated across all its equity securities, including, where identifiable, those that are not listed or trading) in the hands of unrestricted shareholders or they will be deemed ineligible for index inclusion.

5.9.2 The percentage of a company's voting rights in public hands is calculated as:

$$\frac{\text{The number of votes in the hands of shareholders that are unrestricted as determined by the application of FTSE Russell free float definitions}}{\text{The total number of votes conferred by the shares outstanding of all the company's voting securities including those that have not been admitted to trading on a regulated venue}}$$

For example, company A has 100m listed class A shares each conferring one vote, free float is 65%. It also has 300m unlisted class B shares each conferring 10 votes.

The test to assess whether the listed class A line has the required greater than 5% of the company's voting rights is as follows:

$$\frac{65\text{m (i. e. 100m class A voting rights * 65\% float)}}{3.1\text{bn (i. e. 100m class A + 3bn class B)}} \\ = 2.097\% \text{ of the company's voting rights in public hands}$$

5.10 Reserve list

- 5.10.1 The reserve list of the FTSE Nareit All Mortgage Capped Index will include companies classified by FTSE as mortgage finance and savings associations that are members of FTSE Global Equity Index Series. These companies will undergo the liquidity test stipulated in the Ground Rules for the FTSE Global Equity Index Series.
- 5.10.2 A constituent from the reserve list will be added to the index only when the number of constituents falls below 20. If the number of constituents in the index falls below 20, then constituents will be added from the reserve list. Each constituent will be capped at 3% and in aggregate shall not exceed 30%.
- 5.10.3 The reserve list is maintained for the FTSE Nareit All Mortgage Capped Index and will be maintained with the following steps.
- Stocks considered for the reserve list will be ranked by the FTSE Indicated Dividend Yield. The FTSE Indicated Dividend Yield is calculated by taking the last dividend paid and multiplying by the prior year's frequency (annualising) and dividing by the stock price. It is the dividends expected to be paid by the company during the next 12 months (FTSE Indicated Dividend).
 - Stocks with a negative average dividend growth rate for the past three years will be excluded. This is tested by taking an average of the total annual dividends paid over the past three years and comparing with the FTSE Indicated Dividend, which should be higher.
 - In calculating the three-year historical dividend growth rate, if a company omits, suspends or skips a dividend temporarily, the amount is considered zero.
 - If a company announces suspension of dividends for the current cycle of review or for the future, the company will be removed from the reserve list.
 - If there are not enough stocks from the reserve list to constitute 20 names in the index, the stocks considered for the reserve list that failed to pay dividends will be ranked by float market cap to be added to the index.
 - If the index has already a stock from the reserve list added at the last review, and if a mortgage REIT becomes eligible to be included in the index, the stock from the reserve list will be replaced by the mortgage REIT.
 - If a company from the reserve list is already in the index, it will be replaced by another company from the reserve list provided no mortgage REIT is available, at a quarterly review, in the following but not limited to the cases where:
 - the company announces suspension of dividends for the current cycle of review or for the future; and
 - the company failed the three-year dividend growth test.

5.11 FTSE Nareit new property sector entry rule

- 5.11.1 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 capitalisation⁴.

A. Addition of a new index constituent

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

⁴ Note: the changes to Rule 5.9.1 which were announced in June 2015 will take effect on 21 December 2015.

Example one

- New addition company A has an investable market capitalisation of USD 20 billion.
- Total investable market cap of FTSE Nareit All Equity REITs Index before inclusion is USD 800 billion.
- Percentage weight of company A following inclusion in the FTSE Nareit All Equity REITs Index = $\text{USD } 20 / (\text{USD } 800 + \text{USD } 20) = 2.44\%$.

In this example, a new property sector would not be created and company A would be added to the equity speciality property sector.

Example two

- New addition company A has an investable market capitalisation of USD 20 billion.
- Total investable market cap of FTSE Nareit All Equity REITs Index before inclusion is USD 800 billion.
- Other existing constituents for a new property sector have a combined investable market capitalisation of US 10 billion.
- Percentage weight of company A combined with that of other existing constituents = $(\text{USD } 20 + \text{USD } 10) / (\text{USD } 800 + \text{USD } 20) = \text{USD } 30 / \text{USD } 820 = 3.66\%$.

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

B. Combined investable market capitalisation of existing constituents

When the combined investable market capitalisation of one or more existing constituents with a common property sector focus grows to exceed 3% of the investable market capitalisation 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 capitalisation requirement for existing property sectors. Existing property sectors will remain in the FTSE Nareit Classification structure as long as they contain eligible index constituents. On 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 5.11.

Section 6

Changes to constituent companies

6. Changes to constituent companies

6.1 Removal

6.1.1 If a constituent is delisted, ceases to have a firm quotation or is subject to a takeover offer that has been declared wholly unconditional, it will be removed from the indices of which it is a constituent.

6.1.2 The removal is effective before the start of the index calculation on the second business day following the day on which the event justifying removal was announced. Announcements made after the close of the index calculation are normally deemed to be made on the following business day.

6.1.3 A company deleted following a takeover, with a remaining free float of 15% or less, will not be reconsidered for index inclusion until completion of a one-year trading record.

6.1.4 If a company included in the FTSE Nareit US Real Estate Capped Index Series is split, where a split results in the inclusion of an ineligible security, the ineligible security will remain in the index for two trading days and then be deleted at market price or if no market price is available, at zero value.

Where the market price of an eligible company resulting from the split is unavailable and the trading date remains unknown after 20 business days it will be deleted at zero value.

6.1.5 In the event that an index constituent of the FTSE Nareit All REITs Index Series announces that it has failed to qualify to be taxed as a REIT for federal tax purposes, FTSE and Nareit will review the status of the company on a 20 trading day cycle and seek guidance from the FTSE Nareit Index Series advisory committee as to the most appropriate course of action based on the particular circumstances, including the length of time it will take to restate the financial reports. FTSE and Nareit will provide sufficient advanced notification before implementing any change to the index eligibility of the aforementioned index constituent.

6.1.6 In the event that an index constituent of the FTSE Nareit All REITs Index Series announces that it will no longer elect to operate as a REIT in accordance with the US Internal Revenue Code, FTSE Russell will delete the index constituent from the FTSE Nareit All REITs Index Series effective at the date, or as soon as practicable following the date, on which the constituent announces it will no longer operate as a REIT.

6.2 New issues

6.2.1 Fast entry

Qualifying fast entries will be added to the index in line with standard fast entry rules. Due to the capped nature of these indices and to minimise turnover, all stocks will potentially be re-capped or the new stock may be added to the index constituents file at zero weight (effectively not being part of the index calculation) in line with the capping rules found in Appendix C.

6.2.2 Quarterly additions into the index series

New issues of companies that do not qualify for fast entry under rule 6.2.1 but that meet the criteria for eligible securities set out in section 5 and rule 6.2.3, and have been listed for more than 20 business trading days, will be eligible for inclusion in the FTSE Nareit US Real Estate Capped Index Series. The data will be compiled as at the close of business on the Monday four weeks prior to the review effective date. The changes will be effective after the close of business on the third Friday in March, June, September and December.

6.2.3 To qualify as a REIT, a company is required to meet several criteria, as defined by the US Internal Revenue Code, intended to make certain that the company is largely devoted to the commercial real estate business. Publicly traded real estate companies that elect REIT status in a particular year are required to file Form 1120-REIT in that particular year with the US Internal Revenue Service.

6.3 Mergers and takeovers

6.3.1 Mergers between constituents

If an existing constituent is acquired for eligible shares (or a combination of eligible shares and cash) by another constituent, then the existing constituent is deleted on the effective date of the acquisition. The enlarged company remains a constituent of the same benchmarks within the FTSE Nareit US Real Estate Capped Index Series at the combined weight of both companies.

6.3.2 Mergers between a constituent and non-constituent

If an existing constituent is acquired for eligible shares (or a combination of eligible shares and cash) by a quoted non-constituent, then the purchasing company is added to the same benchmarks within the FTSE Nareit US Real Estate Capped Index Series as the acquired company (at the same weight as the acquired company) on the effective date of the acquisition, if eligible in all other respects (see section 5 and rules 1.1.1 and 6.2.3). The existing constituent is deleted on the same date.

6.4 Suspended companies

6.4.1 FTSE Russell's treatment can be found using the following link:

[Suspended Companies Rule.pdf](#)

6.5 Investability weightings

6.5.1 Changes to free float for constituent securities are covered in the Corporate Actions and Events Guide.

Section 7

Changes to classification of constituent companies

7. Changes to classification of constituent companies

- 7.1 Where a constituent is the subject of a merger, restructuring or takeover that results in a constituent or part of a constituent being absorbed by another, FTSE will make the necessary adjustments to the relevant investment sector, property sector and property sub-sector at the same time that the constituent changes are implemented.
- 7.2 Periodic changes to FTSE Nareit industry classification of a company will be agreed and announced by Nareit and FTSE (for further details, see Appendix B). Periodic changes to the investment sector, property sector and property sub-sector classification of a company will be agreed and announced by Nareit and FTSE. Such changes will be implemented after the close of the index calculation on the third Friday of the month.

Section 8

Corporate actions and events

8. Corporate actions and events

8.1 Corporate Actions and Events

8.1.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

A Corporate 'Action' is an action on shareholders with a prescribed ex date. The share price will be subject to an adjustment on the ex date. These include the following:

- Capital Repayments
- Rights Issues/Entitlement Offers
- Stock Conversion
- Splits (sub-division) / Reverse splits (consolidation)
- Scrip issues (Capitalisation or Bonus Issue)

A Corporate 'Event' is a reaction to company news (event) that may impact the index depending on the index rules. For example, a company announces a strategic shareholder is offering to sell their shares (secondary share offer) – this could result in a free float weighting change in the index. Where an index adjustment is required FTSE Russell will provide notice advising of the timing of the change.

8.2 Investability Weightings

Changes to free float for constituent securities are covered in the Corporate Actions and Events Guide.

8.3 Suspension of Dealing

Suspension of Dealing rules can be found within the Corporate Actions and Events Guide.

Appendix A

Index opening and closing hours

The FTSE Nareit US Real Estate Capped Index Series will calculate between the following hours:

	Open	Close
FTSE Nareit US Real Estate Capped Index Series	09:30	16:10

Notes:

1. Closing prices are downloaded from Refinitiv at 16:30. Because the New York Stock Exchange and NASDAQ do not release official closing prices until several hours later, the price used in the index may not match this official close. If the downloaded closing price is subsequently overwritten by the official closing price, the downloaded closing price is retained in the index calculation.
2. The indices will be calculated during normal trading hours of the New York Stock Exchange and NASDAQ and will be closed on US holidays.
3. Timings are based on Eastern Standard Time (EST).

Appendix B

FTSE Nareit US Real Estate Index classification system

The FTSE Nareit US Real Estate Capped Index Series classification system consists of three levels – investment sectors, property sectors and property subsectors. The investment sectors include:

- **All equity real estate investment trusts (all equity REITs)**

Equity REITs include all tax-qualified REITs (see rule 1.1.1) with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property.

- **Equity real estate investment trusts (equity REITs)**

This investment sector includes all equity REITs not designated as timber REITs or infrastructure REITs. Timber REITs invest in timber assets, including timberland and timber-related products and activities. Infrastructure REITs invest in infrastructure assets, including transportation assets (roads, bridges, tunnels, airports, etc.), energy and utilities assets (power generation, fuels, pipelines, etc.), water and waste management assets and communication assets (line-based networks, air-based networks, etc.). Infrastructure REITs do not include data centre REITs.

- **Mortgage real estate investment trusts (mortgage REITs)**

Mortgage REITs include all tax-qualified REITs with more than 50% of total assets invested in mortgage loans or mortgage-backed securities secured by interests in real property.

A company is classified in one of the following property sectors and property subsectors if 75% or more of its gross invested book assets is invested in that specific sector and subsector. The following subsectors are eligible for the indices detailed in FTSE Nareit US Real Estate Capped Index Series⁵:

FTSE Nareit Industrial

FTSE Nareit Office

FTSE Nareit All Residential Capped Index

- FTSE Nareit Apartments
- FTSE Nareit Manufactured Homes
- FTSE Nareit Health Care
- FTSE Nareit Self Storage
- FTSE Nareit Single Family Homes

⁵ Note: the changes in sector, which were announced in June 2015, took effect on 21 December 2015.

FTSE Nareit Retail Capped Index

- FTSE Nareit Shopping Centres
- FTSE Nareit Regional Malls
- FTSE Nareit Free Standing
- FTSE Nareit All Mortgage Capped Index
- FTSE Nareit Mortgage Home Financing
- FTSE Nareit Mortgage Commercial Financing

Reserve list consists of the following FTSE Global Equity Index Series subsectors:

- ICB subsector 8779 (mortgage finance) (new ICB mortgage finance 30201025)⁶.
- Subset ICB subsector 8355 (banks) (new ICB banks 30101010), which are also classified by FTSE as savings associations.

8779 – mortgage finance – companies that provide mortgages, mortgage insurance and other related services.

FTSE classification – savings associations – federal and state-chartered savings associations (a.k.a. thrifts and savings and loans) chartered under title 12, section 1813 of the United States Code (USC) and operate under the consolidated supervision of a single federal regulator, the US Office of Thrift Supervision (OTS). Savings associations are guided by a uniform standard (pursuant to section 5(c) of the Homeowners' Loan Act (HOLA), 12 USC 1464(c)) for lending and deposit taking and exist primarily to provide mortgages.

⁶ FTSE indices will migrate to the new ICB classification system in March 2021.

Appendix C

Capping methodology

Application of capping at the quarterly reviews

The constituents used to calculate capping factors will be indicative constituents at the quarterly review. This will incorporate stocks additions/deletions, shares in issue updates and free float adjustments. Prices from the close of business on the first Friday in March, June, September and December will be used. The capping factors will be effective after the COB on the third Friday in March, June, September and December and will appear in the five-day tracker product three business days prior to the effective date.

The objective of capping the FTSE Nareit US Real Estate Capped Index Series is to achieve no greater than 22.5% cap in any stock and all stocks above 5% to not exceed 45%. The weights within the index are allowed to float intra-review until the next quarterly review.

Capping is applied to the constituents of the FTSE Nareit Industrial/Office Capped Index, FTSE Nareit All Residential Capped Index, the FTSE Nareit Retail Capped Index and FTSE Nareit All Mortgage Capped Index using the following methodology.

Capping methodology

Stage one:

If stocks from reserve lists are to be added, the weight of these stocks will be capped at 3% and its weight is retained. The combined weight of the stocks drawn from the reserve lists may not exceed 30% of the index.

Stage two:

No individual company in the index can be greater than 22.5%. A company with a weight greater than 22.5% is capped at 22.5% capping weight*.

Stage three:

Reweight and re-rank all companies by resulting weights largest to smallest. Find the highest-ranked company by accumulated weight that is greater than 45%. This company and the companies ranked before it form the top capping group.

If the lowest-ranked company in the top capping group is less than 5%, no further capping is needed. Otherwise proportionately cap the uncapped companies in the top capping group such that top capping group has an aggregate weight of 45% in the index**.

If the result of this round of capping causes any issues in the top capping group to fall below 4.5%, the weights of those companies will be capped at 4.5%.

Stage four:

If the individual weights of the remaining lower ranking uncapped companies are greater than 4.5%, they will be capped at 4.5%.

*In the case more than two companies require 22.5% capping, then the top capping weight will be revaluated.

**Companies capped at 22.5% will not be capped further.

Deletions and fast entries

Re-capping of indices will not take place for any deletions from the index.

Stocks qualifying as fast entries will be eligible for all indices and will join the index at a capped weight in the following cases.

1. The effective IPO date for the stock is more than four calendar weeks after the last quarterly review.
2. The effective IPO date for the stock is more than four calendar weeks before the next quarterly review.
3. The effective IPO date for the stock is more than four calendar weeks after the last re-balance.
4. The effective IPO date for the stock is more than four calendar weeks before the last re-balance.

Re-capping intra-review due to fast entries

In the event of a fast entry to the index requiring intra-review capping under the discretion of FTSE, the following procedures will be followed.

Closing prices, shares in issue and free floats for all stocks on the day the stock has first listed will be used to calculate capping factors.

Fast entry addition and new capping factors will be effective after the close of business on the fifth day of official trading. New capping factor information will be provided as part of the five-day tracker products as of COB the first day of trading for the fast entry.

Appendix D

Status of indices

The FTSE Nareit US Real Estate Capped Index Series may be calculated in real time.

For further details of real-time definitions please refer to the following guide:

[Real Time Status Definitions.pdf](#)

The official opening and closing hours of the FTSE Nareit US Real Estate Capped Index Series are set out in Appendix A. Variations to the official hours of the series will be published by FTSE Russell.

Appendix E

Eligible exchanges and market segments

Country	Exchange	Segment name
USA	New York Stock Exchange	NYSE
		NYSE MKT
	NASDAQ	Capital market
		Global select
		Global market

Appendix F

Further information

A Glossary of Terms used in FTSE Russell's Ground Rules documents can be found using the following link:

[Glossary.pdf](#)

Further information on the FTSE Nareit US Real Estate Capped Index Series is available from FTSE Russell.

For contact details please visit the FTSE Russell website or e-mail FTSE Russell client services at info@ftserussell.com.

Website: www.lseg.com/en/ftse-russell/

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