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FTSE Nareit US Real Estate Index Series - Ground Rule Update

21 December 2023

FTSE Russell would like to inform clients of the following updates to the FTSE Nareit US Real Estate Index Series Ground Rules which are effective immediately:

Section 5: Qualification criteria and periodic review of constituents

Rule 5.5 - Screen two - liquidity - addition of rule F

Each security will be tested for liquidity on an annual basis in December by calculation of its monthly median 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 trades per month of any security, 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 turn over 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 12 months prior to a full market review will be removed.
- C. New issues that do not qualify as entrants as defined in rule 6.2.1 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.
 - i. *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, in which trading volumes are unusually low, FTSE Russell and Nareit may agree that the minimum percentage figure with respect to turnover stated above be reduced to avoid a large amount of turnover of the constituents in the FTSE Nareit Composite Index.
- F. **The product of a spin off or merger/demerger will initially be retained within the existing surviving member or parent memberships. If a minimum of 20 days trading exists prior to the review cut-off date, the company will be evaluated at the forthcoming index review. If the company does not have 20 days of trading ahead of an index review cut-off date, it will be retained in line with the action and evaluated at the subsequent review.**

Screen three - invested assets - update in bold

- 5.6.1 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, shares in other REITs or goodwill (except when clearly generated by non-real estate activities), will be included in the index. New issues, including initial public offerings, with qualifying real estate assets less than 75 percent 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. **The product of a spin off or merger/demerger will be retained within existing surviving member or parent index until asset disclosures have been provided that allow for the invested asset test to be conducted.**

Section 7: Corporate actions and events

Update to Rule 7.2 - Spin-offs

7.2.2 - update shown in bold

FTSE Nareit US Real Estate Index Series (excluding FTSE Nareit 50 Index)

If a constituent company splits and forms two or more companies by issuing new equity to existing shareholders and the resulting companies are eligible* REITS, they will be retained as constituents in the same indices within the FTSE Nareit US Real Estate Index Series as their predecessor company. Where eligible to continue as a constituent, the spin-off entity (entities) will remain in the same indices as the parent company until the next quarterly review. **In the event that asset disclosures are not available or less than 20 days trading record exist as of review cut-off, eligibility will be retained in line with parent membership and eligibility screens will be conducted at the subsequent review.** The spun-off entity will be tested in accordance with the qualification criteria detailed in section 5 and independently classified by sector (subject to necessary disclosures being available) to assess continuing index eligibility. Note that based on data availability and timing of the review, sector membership may be updated without a 20-day trading record.

An updated copy of the FTSE Nareit US Real Estate Index Series Ground Rules (v5.3) reflecting these changes is now available using the following link:

[ftse-nareit-us-real-estate-index-series-ground-rules.pdf](#)

Or on the FTSE Russell website: www.ftserussell.com

For further information please contact FTSE Russell Client Services at info@ftserussell.com or call:

Australia	+61 (0) 2 7228 5659
Hong Kong	+852 2164 3333
Japan	+81 3 6441 1430
London	+44 (0) 20 7866 1810
New York	+1877 503 6437

Alternatively please visit our website at lseg.com/ftse-russell