Real Estate and the Global Industry Classification Standard (GICS®)

FAQs

What is GICS?
The Global Industry Classification Standard was created by MSCI and Standard & Poor's in 1999 and is a four-tired, hierarchical classification system for listed equities worldwide. As a widely accepted global standard, GICS provides a structure for investors, analysts and economists to consistently identify and analyze investment performance and economic activity, as well as to develop investment policies, products and research.

What's going on with GICS and real estate?
On November 10, 2014, S&P Dow Jones Indices and MSCI announced their decision to reclassify and elevate stock-exchange listed equity REITs and other listed real estate companies from under the *Financials* Sector to a new 11th headline *Real Estate* Sector. The change will be effective after the close of business (EDT) on Wednesday, August 31, 2016, and is the first new headline Sector since GICS was created. At the same time, the *Real Estate Investment Trusts* Industry will be renamed *Equity Real Estate Investment Trusts* (*Equity REITs*). Mortgage real estate investment trusts will remain in the *Financials* Sector under a newly created Industry and Sub-Industry called *Mortgage REITs*.

The change will be implemented in MSCI and S&P Dow Jones indexes on September 16, 2016 as part of their annual index rebalancing.

How many publicly traded equities within the new GICS *Real Estate* Sector will be REITs?
According to S&P Dow Jones Indices and MSCI, a list of securities affected by the announced changes will be made available to GICS Direct clients no later than July 1, 2016. Thus, the exact makeup of the new *Real Estate* Sector is not yet clear. However, the new *Real Estate* Sector will include companies classified in two new Industry classifications: *Equity REITs* and *Real Estate Management & Development* companies. At December 31, 2015, 91 companies in the S&P Composite 1500 Index were classified as *Equity REITs*, and four companies were classified as *Real Estate Management & Development*. *Equity REITs* would represent 97 percent of the equity market capitalization of the combined two groups.

Why are real estate companies being reclassified?
S&P Dow Jones Indices and MSCI announced that the reclassification of *Real Estate* to the Sector level "recognizes its growing position in today's global economy as well as [highlights] the progressive nature of the GICS structure." According to Remy Briand, Managing Director and Global Head Equity Research at MSCI, "Feedback from the annual GICS structural review confirmed that Real Estate is now viewed as a distinct asset class and is increasingly being incorporated separately into the strategic asset allocation of asset owners." And from David Blitzer, Managing Director and Chairman of the Index Committee at S&P Dow Jones Indices, "Real Estate is an important and growing part of major economies throughout the world. To reflect this and support good financial analysis, GICS is introducing an eleventh sector for Real Estate and redefining Financials to exclude Real Estate."

How large is the U.S. Equity REIT industry?
Over the past 25 years, the total equity market cap of listed U.S. Equity REITs has grown from $9 billion to nearly $900 billion. There were 26 REITs in the S&P 500 as of January 31, 2016.

What are the implications of this new Sector classification for investment advisors and managers?
The creation of the new *Real Estate* Sector will increase the visibility of real estate as a distinct asset class and encourage investors, their advisors and managers to more actively consider real estate – especially REITs – when developing investment policies and portfolios. The new Real Estate headline sector also will likely lead to the creation of new investment products, such as active and passive mutual funds and exchange traded funds. Advisors and managers will have more real estate fund options to recommend to their clients, likely facilitating positive capital flows into listed real estate equities.

What are some additional implications of the new Real Estate classification?

- May increase and diversify the ownership of real estate equities.
- May lower day-to-day trading volatility as well as correlations with other asset classes, thereby further enhancing the potential diversification benefits already provided by listed Equity REITs.
- With a larger and more diverse investor base, the reclassification may help further moderate the severity of real estate market cycles, with attendant benefits for the broader economy.

Are there other examples of systems reclassifying Equity REITS?

- In 2007, the U.S. Office of Management and Budget (OMB) reclassified equity REITs from "Finance and Insurance" to "Real Estate and Rental and Leasing". The change was reflected on the North American Industry Classification System (NAICS).
- In 2010, Morningstar reclassified equity REITs from the Financial Services sector to a new and distinct Real Estate sector.

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