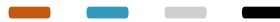




# NCREIF Governance: Independent Valuation

The LIBOR scandal showed the problem with poor policies and procedures for index-related financial products. NCREIF governance policies call for independent valuations of property which makes manipulation of the NCREIF Property Index extremely unlikely.



## LIBOR and the scandal

LIBOR was an index of interest rates put together by the British Bankers Association. The administrative system of the LIBOR had loopholes that provided opportunities to the contributing banks to maneuver rates to suit them. The governance system lacked adequate transparency and accountability, resulting in repeated attempts at manipulation.

In the mid-2000s, traders for various banks (most famously Barclays) manipulated LIBOR to improve their bank's balance sheet and make the bank look stronger than it really was. The traders were the ones contributing information to the calculation of the index. The traders made higher salaries by manipulating the interest rate.

The fall-out included billions in fines and legal charges against traders. The administration of LIBOR has now moved from the British Bankers Association to the Intercontinental Exchange Benchmark Administration and the index is now called ICE-LIBOR.

## NCREIF and Best Practices

The NCREIF Property Index is structured differently than LIBOR. The NPI contains over 7000 properties from over 60 asset management organizations and is calculated by the

not-for-profit NCREIF with thousands of third-party appraisers providing appraisals of the properties.

Best practices in the real estate asset management industry is to hire a third-party valuation firm such as Altus Group to coordinate the various appraisers and make sure that the cap rates and other assumptions in doing the appraisals are consistent across properties. This means the valuations are not done by traders, but by thousands of third-party appraisers. Altus and the other major third-party valuation firms are not in the asset management business, so have no incentive to manipulate the numbers. Due to liability concerns at the asset management firms, rarely, if ever, does the asset management firm change the valuation provided by the third-party valuation firm. Most, if not all, of the firms contributing to the NPI use external valuation firms at least once a year to value the properties in their portfolios. Even if—in a rare case—a valuation were changed, the change in a single valuation out of thousands would not have a significant impact on the overall index return.

Furthermore, many of the properties are in open end funds where investors can buy into or sell out of the fund in any given quarter. Thus, it is imperative that the valuation be fair to both the buyer and seller of an interest in the fund.



In conclusion, the process used to accumulate appraisals and calculate the NPI makes the type of manipulations that happened to LIBOR unlikely.



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