

# Embassy Office Parks REIT

## *India REIT Primer*

June 2023



# Introduction to REITs

A wide-angle photograph of the Embassy TechVillage in Bangalore. The image shows a modern, multi-story commercial building with a light beige facade and numerous windows. A large, covered outdoor plaza with a grid-like roof structure occupies the foreground and middle ground. The plaza is furnished with tables, chairs, and planters. A person is walking in the distance. The sky is blue with scattered white clouds.

Embassy TechVillage, Bangalore

## What is a REIT?

**REITs, a globally accepted asset class, provide regular yield with steady capital appreciation via increasing property valuation**

**► REIT stands for Real Estate Investment Trust**

**► REITs own high-quality income generating assets**

**► REITs allow investors to buy ownership in commercial real estate through a publicly traded unit**

**► REITs are tax efficient vehicles that are required to distribute majority of their cash flows<sup>(1)</sup>**

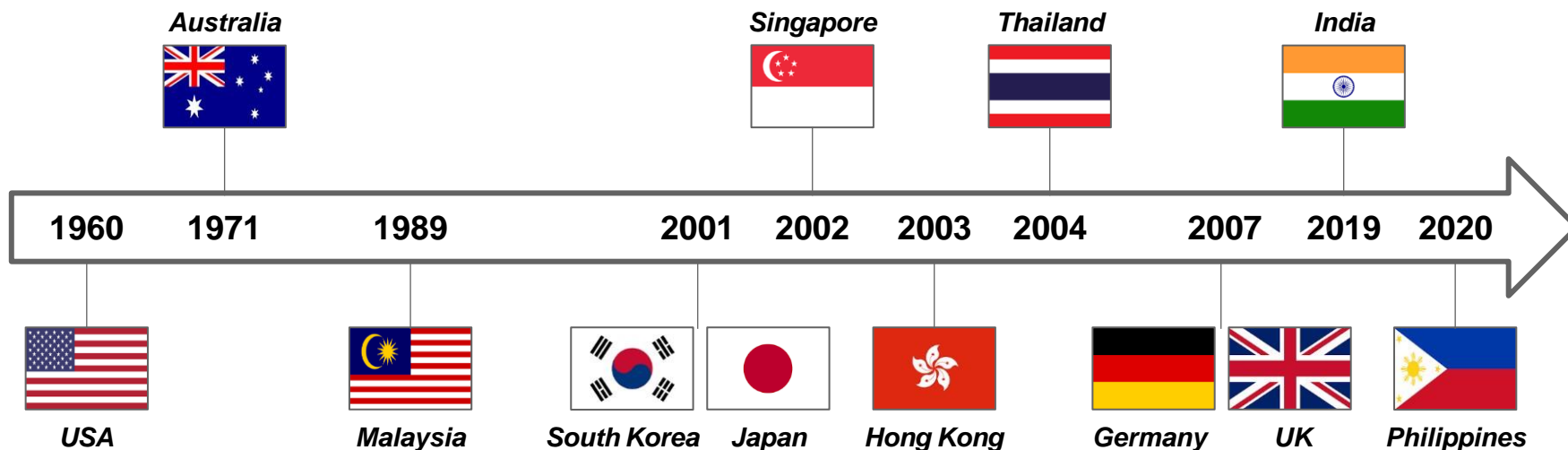
**► REITs provide distribution yields with in-built capital appreciation**

Note:

(1) Refers to Net Distributable Cash Flows (NDCF)

# REITs: Globally Accepted For 60+ Years

## History of REIT Launches in Major Economies



**900+**

REITs launched globally

**~\$2 trillion**

Value of listed REITs

**~60%**

Global real estate market cap  
contributed by REITs

## Listed REIT Landscape in India

	Embassy REIT	Mindspace REIT	Brookfield India REIT	Nexus Select Trust REIT
<b>Ticker (NSE)</b>	EMBASSY	MINDSPACE	BIRET	NXST
<b>Ticker (BSE)</b>	542602	543217	543261	543913
<b>Listing Date</b>	April 01, 2019	August 07, 2020	February 16, 2021	May 19, 2023
<b>Market Capitalization<sup>1</sup></b>	₹29,129 crs	₹18,167 crs	₹9,221 crs	₹15,751 crs
<b>Geographic Focus</b>	Bengaluru, Mumbai, Pune, Noida	Mumbai, Hyderabad, Pune, Chennai	Mumbai, Gurgaon, Noida, Kolkata	Across key cities in India
<b>Completed Area<sup>2</sup></b>	34.3 msf	25.8 msf	14.3 msf	9.2 msf
<b>Leased Area<sup>2</sup></b>	29.4 msf	22.9 msf	12.7 msf	8.8 msf
<b>Sponsor Ownership<sup>2</sup></b>	31% (Blackstone, Embassy Group)	63% (K Raheja Corp)	54% (Brookfield)	43% (Blackstone)

Notes:

(1) NSE, FactSet, data refers to closing price on 31 May'23

(2) Based on available Q4 FY23 results and Final Offer Document of Nexus Select Trust

## What Assets Can an Indian REIT Own?

### PERMITTED

#### Commercial Sectors

*Offices, hotels, retail, industrial, healthcare*

**Min. 80%**

*completed & rent/ income generating assets*

### NOT PERMITTED

#### NOT PERMITTED

*Residential (houses, apartments)*

*Speculative landbank*

#### Conservative Debt Limit

*Unitholder approval for consolidated debt to go above 25%*

*Regulatory limit at 49%*



## Why Invest in Indian REITs?

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### Accessibility

*Ownership in  
professionally-managed  
Grade A commercial assets*

### Transparency

*Strong governance  
framework and disclosure  
requirements from SEBI*

### Liquidity

*REIT units are freely traded  
in stock markets like equity  
shares*

### Distributions

*Requirement to distribute  
at least 90% of net  
distributable cash flows  
semi-annually*

### Growth

*Participation in capital  
appreciation from organic  
/ inorganic growth*

### Diversification

*Investment in a high-quality  
diversified portfolio across  
sectors / cities*

# REITs vs Fractional Ownership

	REITs	Fractional Ownership
Liquidity	<b>High</b> <ul style="list-style-type: none"> <li>▶ Can buy/sell single unit at any time like any equity share</li> </ul>	<b>Low</b> <ul style="list-style-type: none"> <li>▶ Large ticket prices</li> <li>▶ Lock-in periods</li> </ul>
Governance	<b>High</b> <ul style="list-style-type: none"> <li>▶ Board of Directors</li> <li>▶ Unitholders approvals</li> <li>▶ Debt covenants</li> </ul>	<b>Low</b> <ul style="list-style-type: none"> <li>▶ Low governance</li> <li>▶ No mechanism for recourse</li> </ul>
Disclosure	<b>High</b> <ul style="list-style-type: none"> <li>▶ Quarterly reporting</li> <li>▶ Annual / Semi-annual reports</li> </ul>	<b>Low</b> <ul style="list-style-type: none"> <li>▶ Limited reporting</li> <li>▶ Lacks transparency</li> </ul>
Risks	<b>Low</b> <ul style="list-style-type: none"> <li>▶ 100% rents collected, even in pandemic</li> <li>▶ AAA/Stable rated balance sheet</li> <li>▶ Low leverage</li> </ul>	<b>High</b> <ul style="list-style-type: none"> <li>▶ Fully vacant building</li> <li>▶ Dependent on equity investors</li> </ul>
Expertise of Management	<b>High</b>	<b>Low</b>
Regulations	Highly regulated	Unorganized; lacks regulations

Notes:

(1) Assumed Real Estate (RE) held through an SPV

(2) Excluding applicable surcharges and cess



# Indian REITs: Highly Regulated and Strong Corporate Governance

India REITs have to adhere to a strong SEBI regulatory framework aimed at protecting unitholder value

## Low Risk Structure

- ▶ At least 80% of rent/income generating assets
- ▶ Minimum 90% of NDCF to be distributed semi-annually

## Low Debt

- ▶ Debt cannot exceed 49% of asset value
- ▶ Unitholder approval for consolidated debt to go above 25%

## Related Party Transaction Safeguards

- ▶ Sponsors prohibited from voting
- ▶ Acquisition / sale price to be within 10% range of average independent valuations

## Corporate Governance

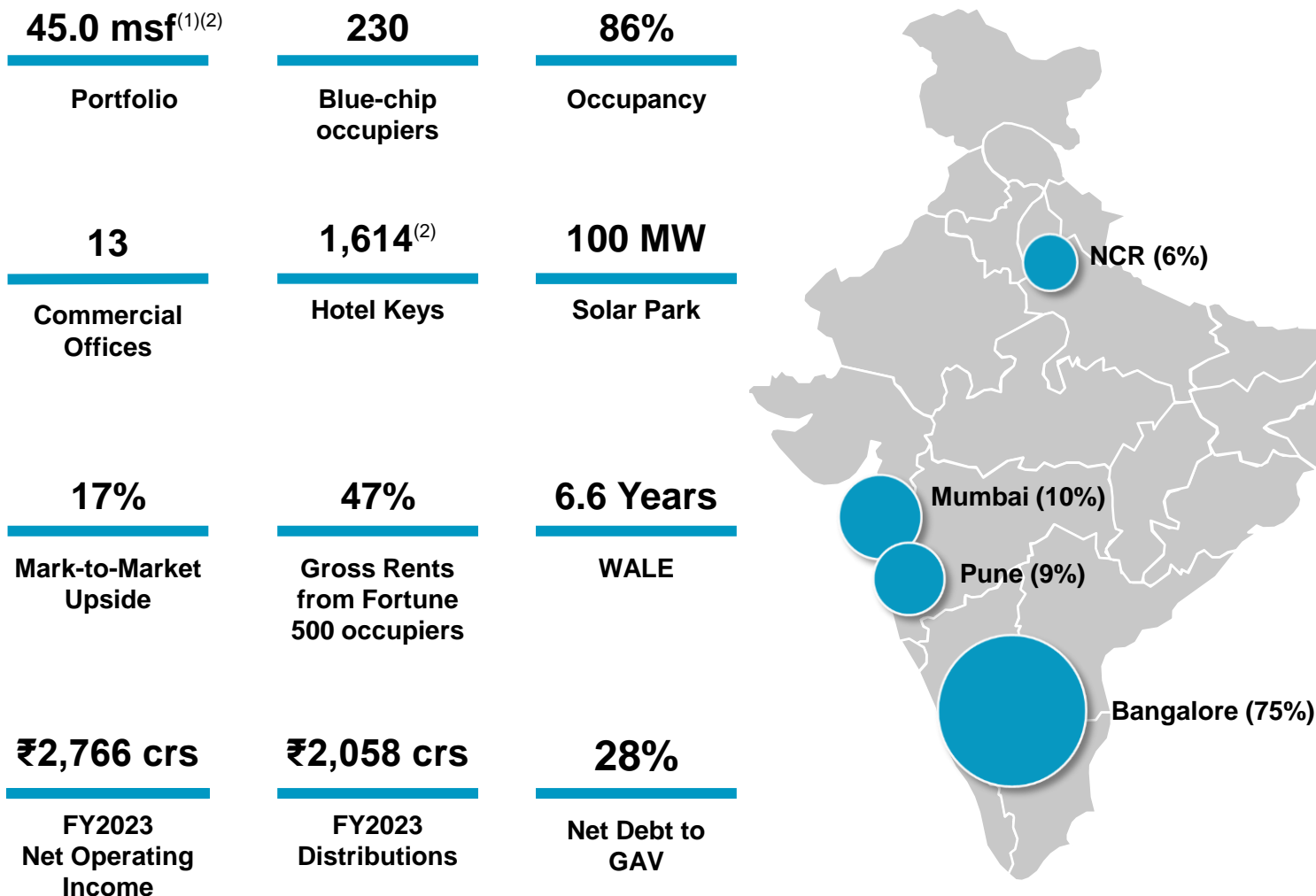
- ▶ 50% independent directors on the Board
- ▶ Unitholder's approval required on critical matters

# Embassy REIT Overview

Hilton Hotel Complex, Embassy Manyata

## Who We Are: Quick Facts

Embassy REIT owns and operates a commercial office portfolio that serves as essential corporate infrastructure to global occupiers, including many technology companies



Notes: City wise split by % of Gross Asset Value (GAV) considered per Mar'23 valuation undertaken by iVAS Partners, represented by Mr. Manish Gupta, in conjunction with value assessment services undertaken by CBRE  
Valuation exercise undertaken semi-annually

(1) Comprises 34.3 msf completed, 7.9 msf under construction and 2.8 msf future development

(2) Includes completed, under construction and proposed future development



## Nine Infrastructure-like Office Parks

**Embassy Manyata**  
Bangalore (15.2 msf)



**Embassy TechVillage**  
Bangalore (9.6 msf)



**Embassy Business Hub**  
Bangalore (1.4 msf)



**Embassy GolfLinks**  
Bangalore (3.1 msf)



**Embassy Quadron**  
Pune (1.9 msf)



**Embassy TechZone**  
Pune (5.5 msf)



**Embassy Oxygen**  
Noida (3.3 msf)



**Embassy Galaxy**  
Noida (1.4 msf)



**Embassy Qubix**  
Pune (1.5 msf)



Note:

(1) Includes completed, under construction and proposed future development



## Four Prime City-center Offices

**Express Towers**  
Mumbai (0.5 msf)



**FIFC**  
Mumbai (0.4 msf)



**Embassy 247**  
Mumbai (1.2 msf)

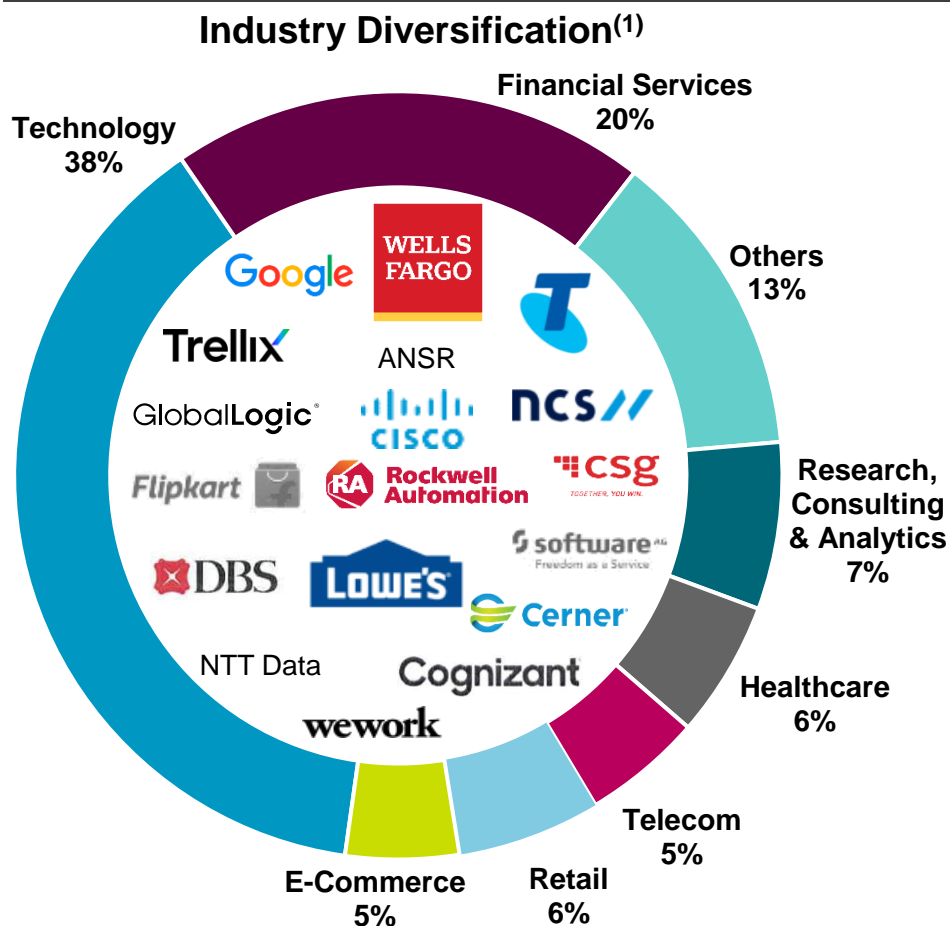


**Embassy One**  
Bangalore (0.3 msf)



# High Quality, Diversified Occupier Base

Tech occupiers and Global Captives constitute over 70% of our occupier base



Top 10 Occupiers	Sector	% of Rentals
JP Morgan	Financial Services	6.7%
Global Technology and Consulting Major	Technology	6.5%
Cognizant	Technology	5.9%
NTT Data	Technology	3.5%
Wells Fargo	Financial Services	3.2%
Flipkart	E-commerce	2.9%
ANSR	Consulting	2.8%
American Retail Major	Retail	1.9%
Google India	Technology	1.7%
Cisco Systems	Technology	1.6%
<b>Total</b>		<b>37%</b>

- ▶ Added 44 new occupiers in FY23, expanding our overall occupier base to 230 (vs 165 at the time of listing)
- ▶ Contribution from Top 10 occupiers at 37% (vs 42% at the time of listing), with no single occupier contributing over 7%

Note: Actual legal entity name of occupiers may differ

(1) Represents industry diversification percentages based on Embassy REIT's share of gross rentals

# Indian Commercial Office Snapshot

India office sector continues to grow exponentially, led by offshoring demand from global captives attracted to India due to the dual structural drivers of cost efficiency and abundant STEM talent

**~750 msf**

Total Grade A Stock in India<sup>(1)</sup>

**284 msf / \$36 bn**

REIT Potential Stock in India<sup>(3)</sup>

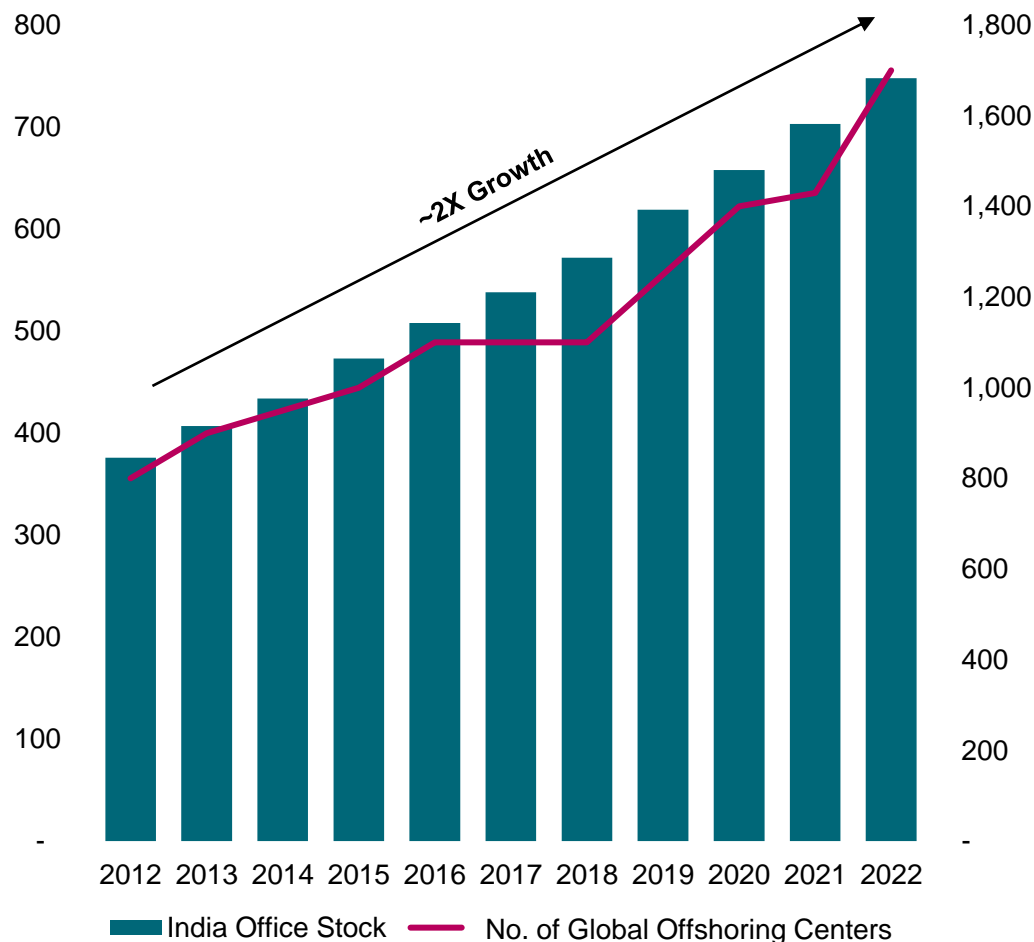
**~30%**

Total Office Stock in Bangalore

**74 msf**

Currently owned by REITs<sup>(4)</sup>

Pan India Office Stock (msf)<sup>(1)</sup> and No. of GCC additions in India<sup>(2)</sup>



Notes:

(1) Source: CBRE

(2) Source: Morgan Stanley: 'The New India: Why This Is India's Decade', October 2022

(3) Source: JLL, 2021

(4) Refers to total office portfolio of Embassy REIT, Mindspace REIT and Brookfield India REIT as of Q4 FY23



## Multiple Embedded Growth Levers

Embassy REIT's strategy focuses on enhancing NOI and delivering long term total return value for Unitholders, driven by rental growth as well as leased area expansion

**4.9 msf**

► Vacant Area lease-up

**7.9 msf**

► New developments over the next 4 years with ₹900 crores of expected stabilized NOI at attractive yields

**~5% p.a**

► Contracted escalations (generally 15% every 3 years)

**17%**

► Mark-to-market potential resulting in portfolio rent growth

**10 msf+**

► Acquisition Opportunity Pipeline

Notes:

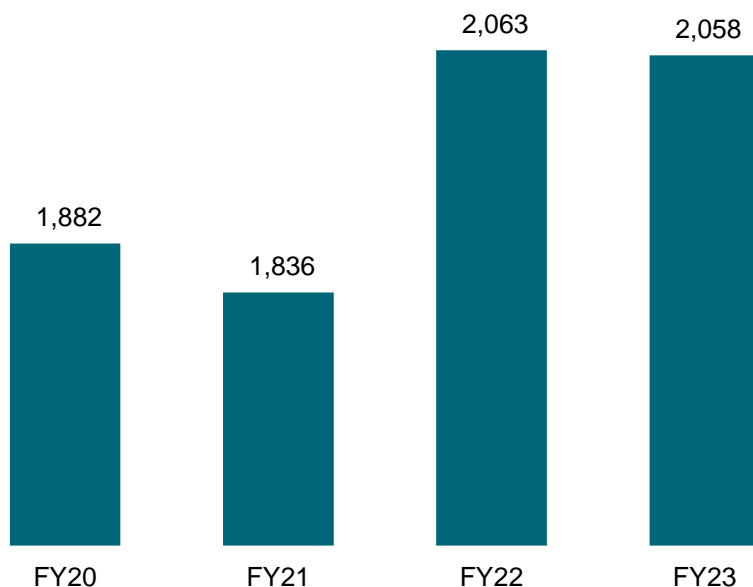
(1) Figures above are indicative only. There can be no assurance that they can be achieved

(2) Pipeline and opportunities are indicative only. There can be no assurance that above opportunities or other pipeline opportunities will materialize in current form or at all or result in transactions

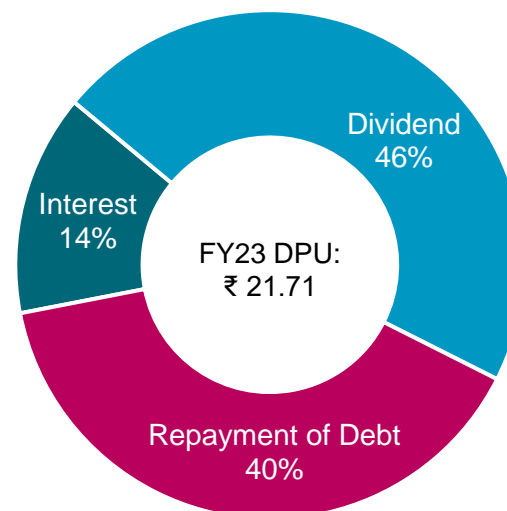
## Delivering on Distributions

Consistently distributed 100% payout for 16 quarters, cumulative distributions of over ₹7,800 crores since listing. Tax efficient distributions, with a significant proportion tax free for Unitholders

### Consistent 100% Distributions Since Listing (₹ crs)



### Distribution Mix (FY2023)



**80,000+**

Unitholders

**₹7,800 crores**

Distributions since listing

**7.0%**

Distribution Yield<sup>(1)</sup>

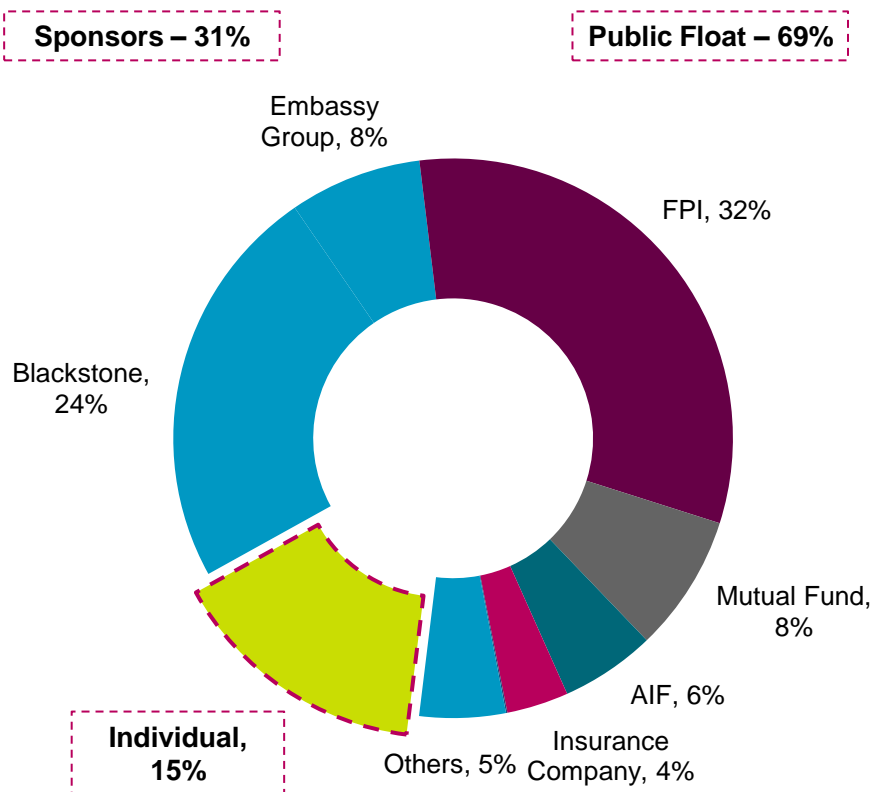
Note:

(1) Source: NSE, data refers to closing price on May 31, 2023

## Growing Retail Unitholder Base

A well-diversified investor base, high public float and increased participation from retail investors enhance liquidity for Embassy REIT's units and enable better price discovery

### High Public Float



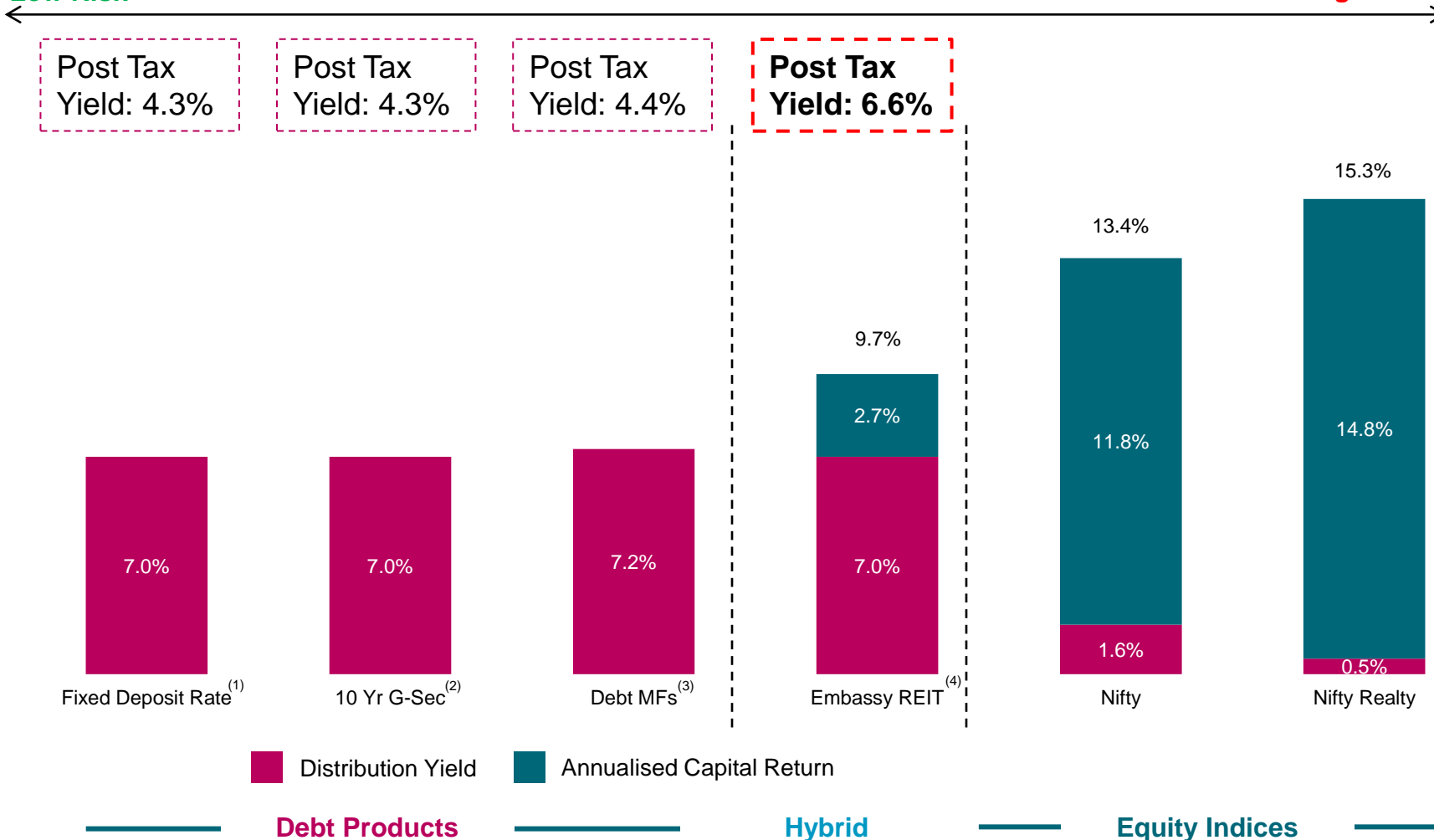
### Robust Growth in Retail Unitholders



# Attractive Post-Tax Yield Coupled with Capital Appreciation

Low Risk

High Risk



Notes: Source: Bloomberg. For period April 1, 2019 to May 31, 2023

(1) Refers to HDFC Bank domestic fixed deposit rate for 3 years 1 day - 5 years for amount less than ₹ 2 crores

(2) Refers to 10 year G- Sec on May 31, 2023

(3) Refers to HDFC Short Term Debt Fund; Inception: 01/01/2013

(4) Distribution yields computed basis IPO price of ₹300/ unit. Embassy REIT's post tax yield is calculated assuming maximum marginal tax rate of 39% on interest part of total distribution of ₹21.7 per unit made in FY23.

Distribution yield of 7.0% is calculated on closing price of May 31, 2023 on NSE

(5) Tax rate for fixed deposit rate, 10 Yr G-Sec and Debt Mutual Fund is assumed as 39% (Maximum Marginal Tax Rate)



# Appendix

An aerial night photograph of the Embassy Galaxy hotel in Noida. The building is a large, modern structure with multiple wings and a prominent glass facade that is brightly lit from within. A tall, dark brick tower on the right side of the building features a red 'CSC' logo near its top. The hotel is surrounded by lush green trees and landscaped grounds. In the foreground, a curved road with a yellow and black striped curb is visible, with several cars parked or moving along it. Light trails from vehicles are visible on the road. The sky is a deep blue, indicating twilight.

Embassy Galaxy, Noida

## Who can Invest in Indian REITs?

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- ▶ Any investor (domestic / FPI / retail / institutional) can buy REIT units in India
- ▶ No minimum trading lot size; can invest in single unit of REITs
- ▶ Investors can purchase REIT units through a demat account, similar to how they would purchase shares in a listed company
- ▶ Indian REIT units can be bought / sold freely on either NSE or BSE – either online or through a broker
- ▶ Investors can also buy REIT units through participation in REIT IPO and through open market

# Simple REIT Business Model

## Grade A Office Rents

**(+)** Income from Amenities / Maintenance

**(-)** Property Tax, Maintenance, Insurance

## Net Operating Income (NOI)

**(-)** Operating Expenses

**(-)** Interest Cost, Taxes

## Profit After Tax (PAT)

**(+)** Depreciation / other

## Net Distributable Cash Flows (NDCF)

► Paid by the world's best companies

► Hotel / Renewable Energy

► Cost of running buildings

► 76% up since listing (for Embassy REIT)

► Employee and G&A costs

► AAA Balance Sheet and minimal tax impact

► REIT delivers NDCF and not PAT

► Non-cash Items

► Required to pay at least 90% to unitholders



# Embassy REIT's Unmatched Resilience During Pandemic

**Backed by the underlying covenants of its global marquee occupiers and its best-in-class wellness-oriented portfolio, Embassy REIT's business demonstrated strong resilience during Covid times**

<b>Offices</b>	<ul style="list-style-type: none"> <li>▶ Collected 100% of contractual rental escalations during Covid</li> <li>▶ Maintained safe offices over the entire portfolio</li> <li>▶ Implemented Best in Class safety procedures for all tenants and frontline workers</li> </ul>
<b>Growth</b>	<ul style="list-style-type: none"> <li>▶ Delivered 1.4 msf of development on time</li> <li>▶ Bought 9.2 msf of growth in India's best performing office micro market</li> </ul>
<b>Financials</b>	<ul style="list-style-type: none"> <li>▶ Refinanced ₹4,530 crores Zero Coupon Bond. Reduced cost of debt from 9.5% to competitive 6.5%</li> <li>▶ Paid 100% NDCF to our unitholders; distributed ₹7,800 crores over the past 16 quarters</li> <li>▶ Simplified holding structure of Embassy TechVillage to improve distribution profile</li> </ul>
<b>Total Business Ecosystem</b>	<ul style="list-style-type: none"> <li>▶ Completed significant infrastructure upgrades and amenities during Covid               <ul style="list-style-type: none"> <li>– 1 km key flyover at Embassy Manyata flyover</li> <li>– Dual branded Hilton hotels (619 key) and convention center (60,000 sf) at Embassy Manyata</li> <li>– Embassy Manyata masterplan upgrade</li> <li>– Embassy Quadron upgrade – lobbies, façade and external upgrades</li> </ul> </li> </ul>

# Embassy REIT | Fortress Balance Sheet with Active Debt Management

**Raised ₹41 billion debt at competitive 7.8% interest cost even amidst continued rate hikes across FY23. This included over ₹18 billion of debt refinanced at 103 bps positive spreads**

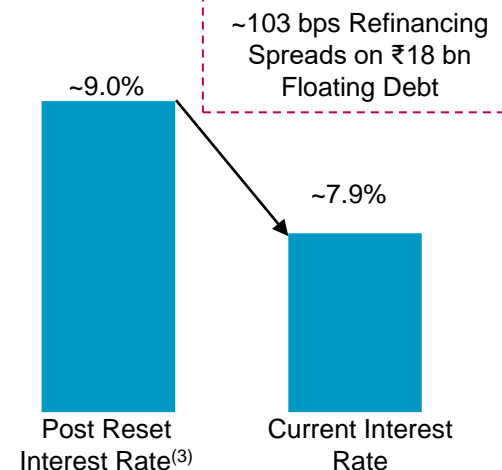
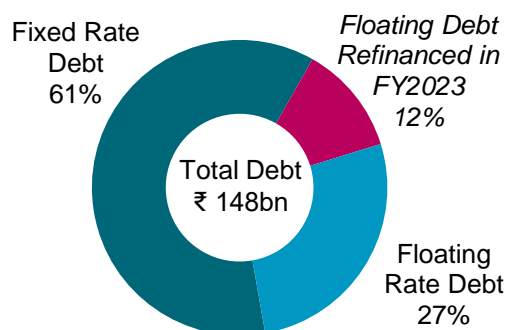
**28%**  
Leverage<sup>(1)</sup>

**7.2%**  
Debt Cost

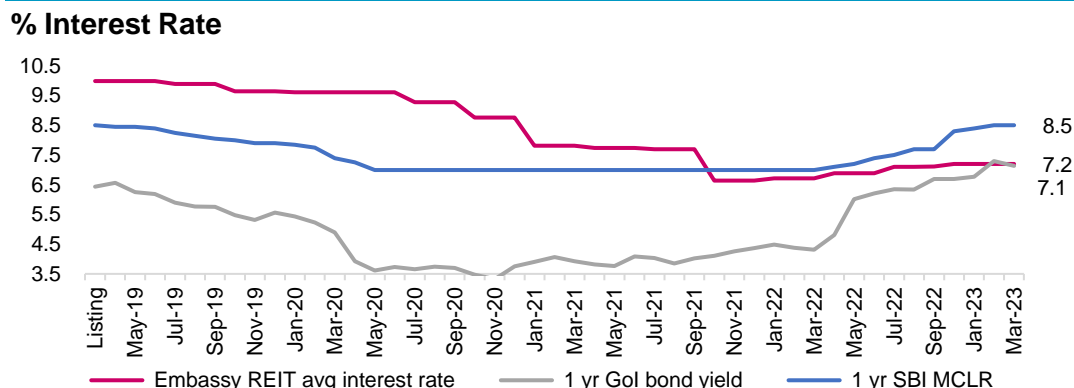
**61%**  
Fixed Rate Debt

**AAA / Stable**  
Credit Rating

## Active Debt Management Leading to Positive Refinance Spreads



## Significant Reduction in Cost of Debt Since Listing through Refinancing



Notes:

- (1) Based on Net Debt to GAV. GAV computed based on Mar'23 valuation undertaken by iVAS Partners  
 (2) Source: National Stock Exchange, State Bank of India website  
 (3) Pre Reset case represents proforma interest rate that would have been applicable had the facilities not been refinanced

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